Austria	Sch24	Indonesia	Rp3100	Pakistan	Rs35
Bahrain	Din0.700	Iran	Rls210	Philippines	Peso40
Belgium	BFr65	Israel	Shk3.50	Poland	Zl 9,000
Cyprus	C£0.90	Italy	L2000	Portugal	Es155
Denmark	DKr12.00	Jordan	Fils1000	Qatar	QR9.50
Egypt	E£3.25	Kuwait	Fils.500	S.Arabia	SR7.00
Finland	FM9.50	Lebanon	L£400.00	Singapore	S$4.10
France	FFr7.50	Lux	LFr65	Spain	Pta185
Germany	DM2.60	Malaysia	M$4.25	Sweden	SKr12
Greece	Dr150	Morocco	MDh9.00	Switz	SFr2.50
Hong Kong	HK$12	Neth	Fl 3.25	Thailand	Bht50
Hungary	Ft107	Nigeria	Naira10	Tunisia	Din0.900
Iceland	IKr160	Norway	NKr12.00	Turkey	L2000
India	Rs15	Oman	OR1	UAE	Dh7.00

EUROPE'S BUSINESS NEWSPAPER

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LATIN AMERICA

A continent in search of a role

Page 14

World News

Gorbachev fights plans for separate economies

President Mikhail Gorbachev and his Prime Minister, Nikolai Ryzhkov, launched an urgent counter-offensive against the plethora of plans by Soviet republics to set up separate banking systems, currencies and even customs services. Page 2

Trade deal effort

Trade officials from Washington and Brussels flew into Geneva for a last-minute attempt to find a compromise over farm reform. Page 3

Blow for Taiwan

Taiwan's foreign policy was dealt a severe blow as Saudi Arabia, its last ally in the Middle East, recognised Peking as China's only legitimate government. Page 4

ANC unit arrested

South African security sources said police had arrested scores of African National Congress infiltrators who had entered the country to stage attacks. ANC officials said the arrests would not torpedo talks with the Government due to resume in August.

Mongolian election

Voting was brisk as Mongolia's 2m people voted on Sunday in their first free elections. Diplomats in Ulan Bator, predicted the Communist Party would win but its authority, unchallenged for 69 years, would be much weakened.

Action against US

The crumbling government of Liberian President Samuel Doe expelled the head of the US military mission to Liberia, as advancing rebel troops fought with government soldiers close to central Monrovia.

Lebanese trigger

A ferocious battle for control of a village in south Lebanon threatened to draw other forces, including Israelis and Palestinians, into the country's long-standing feud between rival Shia Moslem militias. Page 3

Zambian opposition

Prominent pro-democracy campaigners in the Zambian capital of Lusaka elected a steering committee to fight for the end of two decades of one-party rule. Page 2

EC-Israel ties

Just how strained ties between Israel and the EC have become will be tested when the EC's "troika" of foreign ministers – those of current Commission chairman Italy, Ireland the predecessor and Luxembourg the successor – meet Mr Yitzhak Shamir, the Prime Minister, and Mr David Levy, his Foreign Minister. Page 3

UK reshuffle

British Prime Minister Margaret Thatcher is expected to announce middle and lower-ranking ministerial changes intended to complete a government line-up which will lead the fight into the next general election.

Tanzanian AIDS up

About 40,000 Tanzanians are now officially known to have AIDS, up from 13,000 at the end of last year.

Golf title to Faldo

Nick Faldo won his second British Open golf title by five shots after a challenge by American Payne Stewart fell away over the closing holes.

Win for LeMond

Greg LeMond of the US was the overall winner of the 1990 Tour de France cycling race, with a time of 90 hours 43 minutes and 20 seconds. Claudio Chiappucci of Italy came second, two minutes and 16 seconds behind.

Business Summary

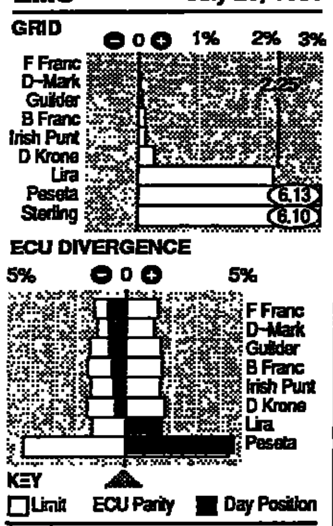
UK officials suspect US pressure over aircraft order

British officials in Tokyo suspect US political pressure is behind a delay in the company receiving a £240m ($437m) order from the Japanese military for 27 aircraft made by British Aerospace, the UK defence and aircraft manufacturer.

They fear the pressure may be sufficient to postpone the decision indefinitely or cause the Japanese to change the specification for the aircraft to favour US models. Page 16

EUROPEAN Monetary System: A rise in Amsterdam money market rates, engineered by the Dutch Central Bank, helped the guilder and was the main action to relieve pressure in the EMS last week. The Bank of Spain maintained an open offer to buy weak currencies as the peseta pushed through its upper limit in the system. The Bank of France took limited action to support the franc, but threatened to lower interest rates.

EMS July 20, 1990



The chart shows the constraints on EMS exchange rates. The upper grid, based on the system's weakest currency, defines the cross-rates from which only the peseta may move by more than 2¼ per cent. The lower chart gives currencies' divergence from the central rate against the European Currency Unit (Ecu).

AUSTRALIAN Government moved to end speculation over the floor price for the world's biggest wool industry by announcing an inquiry into pricing and marketing arrangements. Page 4

EUROBOND market is undergoing an erosion of swap opportunities which is forcing borrowers to drop their funding targets. Page 19.

LOCKHEED, US defence company, had a $3bn contract with the Pentagon to build a new type of anti-submarine aircraft cancelled, because of what the Pentagon described as an inadequate performance by the company. Page 21

JAPAN's rice market stands a better chance of being opened following the call by Toshiki Kaifu, Japanese Prime Minister, for an easing of the country's embargo on rice imports. Page 16.

Some FT statistical tables were affected by the bomb on Friday at the Stock Exchange. No prices for gilt-edged stocks were available from the SE. As a result:

- *Thursday's prices are repeated in the British Funds section of the London Share Service;*
- *The Fixed Interest section of the FT-Actuaries All-Share Index and the FT Government Securities Index could not be calculated on Friday July 20, while gilts prices used in the calculation of the FT Fixed Interest Index on Friday July 20 were those for July 19.*

Ukrainians call the Bank of England to account

By Andrew Marshall, Economics Staff, in London

OFFICIALS from the Bank of England this morning will brush the dust off an old leather-bound ledger and rummage through dusty, forgotten corners of the vaults. They might have lost something, and it might cost them £16,000bn ($29,120bn), but they are not quite sure.

Members of the parliament of the Soviet republic of the Ukraine claimed on Saturday that a barrel of gold was entrusted to London for safe keeping 270 years ago. They would now like it back.

The Ukrainian MPs calculate the present value of the barrel as six times the gross domestic product of the US. This translates as £300,000 for every Ukrainian.

The gold was lodged with the Bank of England, then a private institution, by Colonel Pavel Polubotok, a Ukrainian military leader, before he set out for St Petersburg for talks with the Russian imperial government. Peter the Great promptly threw the unfortunate Col Polubotok in jail, and he died there, having bequeathed the gold to a sovereign and independent Ukraine.

Now that the Ukraine is claiming its own sovereignty, it would find the gold quite useful. "I'm sure that the treasure will be transferred to the Ukrainian people and will be their property," Mr Vladimir Yavorivsky, a deputy, told the parliament.

This is an opinion of which the Bank of England, never keen to commit itself on anything, is not quite so sure.

The Bank does not have a reputation for being careless with other people's money. But officials could find no evidence of the barrel immediately, nor of the Ukrainian claim, and they will be examining their records.

This is where the leather-bound ledger comes in. It is the record of all defunct accounts. Whether the barrel is still around is uncertain, given that the Bank did not move into its current premises until 1734.

Officials of Britain's central bank are taking the claim quite seriously, though they point out that until the UK recognises Ukraine as a sovereign state, there is little chance of any claim being settled.

Nor is the Ukrainian claim the only one outstanding. There are also claims from the Latvian, Lithuanian and Estonian governments, which are all thought to have deposited gold with the Bank during their brief inter-war periods of independence. None are claiming sums quite so astronomical, however.

The valuation of the Ukrainian gold is a moot point, the Bank says; if a barrel was entrusted to the vaults, a barrel will be returned, with contents. If, however, the Ukrainians opened an account, then interest may indeed be repayable – though £16,000bn sounds a trifle high.

Since the Bank of England counts its assets only in the billions, payment would entail borrowing on a scale that would quite put the gilts market off its breakfast.

UK electricity privatisation facing increasing disarray

By David Thomas and **David Owen** in London

THE BRITISH Government will come under intense pressure this week to resolve the growing disarray in its electricity privatisation programme by deciding the fate of PowerGen, one of the two generating companies in England and Wales to be sold.

UK ELECTRICITY GENERATORS

	National Power	PowerGen
Turnover*	£4bn	£2.5bn
Staff	16,000	9,100
Power stations	40	21
Capacity	29,700MW	18,700MW

*1990-91 estimate. Source: Smith New Court

Hanson, the industrial conglomerate, has been talking to the Government about buying PowerGen, whose sale is expected to raise more than £1bn ($1.8bn). Ministers are now considering whether to sell PowerGen to a single bidder in a competitive tender following this unexpected development.

Separately, National Power, its rival generating company, will announce provisions on Thursday of almost £900m to meet job losses and other costs of moving into the private sector. As a result, its final accounts as a state-owned industry will show a loss of more than £500m.

National Power will disclose this week that over the next three to five years, it intends to shed about 5,000 manual and white collar jobs and close 2,000-3,000 megawatts of old coal-fired capacity. This is equivalent to shutting about six medium-sized power stations.

PowerGen will also declare a smaller loss when it publishes its accounts in a week's time.

Mr Frank Dobson, energy spokesman for the Labour opposition, yesterday accused the Government of preparing to sell the industry for less than its true worth: "More than £20bn of public assets are being revalued, and devalued, to suit the Government's privatisation programme . . . It is one unending series of write-offs, rip-offs, and pay-offs."

Mr Dobson will demand a statement in Parliament today from Mr John Wakeham, Energy Secretary, on the Government's plans for the sale of PowerGen.

The Labour Party will try to make capital out of Hanson's acquisitive reputation: "It is a notorious asset stripper. It would make a fortune out of disposing of its assets," Mr Dobson said.

However, a senior Hanson adviser indicated that the company would be interested in PowerGen as a low key industrial operation whose performance could be improved – similar to other companies Hanson has bought in the past.

The Government has ruled out selling PowerGen directly to Hanson without giving other companies the chance to bid. Until this weekend, analysts expected that PowerGen would be floated at the same time as National Power early next year.

Mr Wakeham is likely to announce a decision on how he intends to sell PowerGen before Parliament breaks up for the summer recess this week, provided that Hanson expresses a formal interest in buying the company.

A sale by tender would ease Government fears that next year's planned joint share offering for the two generating groups might fall flat owing to lack of investor demand.

"Floating National Power normally to raise more than £2bn would mop up anyone in the country who would want shares in power generation," an influential banker close to the current talks said yesterday.

In a effort to avoid the sale of the less popular of the two generating companies being a flop, the Government's advisers had been working on a plan to require investors to buy bundles of shares in National Power and PowerGen at the same time.

A tender sale of PowerGen might also raise more money since the buyer could be asked for a premium for 100 per cent control. But a tender sale will be attacked by the Government's critics as highly risky.

The Government's £190m sale of Royal Ordnance, the munitions group, to British Aerospace in 1987 was conducted on

Continued on Page 16

Plugging into a double-edged prospect, Page 15

Cash shortage forces Moscow to cut grain imports

By Quentin Peel in Moscow

GRAIN PURCHASES by the Soviet Union on the international market this year will fall far short of the 44m tonnes it bought in 1989, because of the acute foreign exchange squeeze the country is facing.

However, the result could mean a grave food crisis in the country, with a serious shortage of both bread and animal fodder, unless the current harvest produces a sharp increase in grain sales to the state.

That was the grim picture revealed by Mr Nikolai Ryzhkov, Soviet Prime Minister, to a joint meeting of President Mikhail Gorbachev's presidential and federation councils last week, published yesterday in the Soviet press.

At the same time he spelt out the next phase of drastic economic measures, including a complete halt to state spending on all new construction projects, to be introduced in an effort to galvanise the reform process of the Soviet economy.

On the optimistic side, he gave advance notice of a series of reforming decrees, including plans to denationalise the entire state retail, food distribution and service sector, and to abolish laws which still discriminate against individual entrepreneurs, to be enacted in the next two months.

However, Mr Ryzhkov, in a presentation on the state of the Soviet economy and his latest reform plans, made no secret of the immediate crisis in agriculture, with a bumper harvest being threatened by shortages of fuel, spare parts and machinery.

At the same time the virtual doubling in the state procurement price of grain, announced in the spring, has so far had no effect in increasing state pur-

Soviet Prime Minister Nikolai Ryzhkov : grim picture

chases.

A drastic shortfall in state grain purchases last year resulted in the Soviet Union buying 44m tonnes on the world market, he said. "If we do not radically change the situation now, the country will not be able – and I take full responsibility for stating this – to purchase this quantity of grain again," he said.

"We now have a very serious problem with foreign currency. Therefore we have to do everything that we can to ensure that we purchase sufficient quantities of grain [at home] which are required to feed our people."

He went on to spell out the immediate reform plans to be enacted in the next two months:

- to publish a list of all the state enterprises to be turned

Continued on Page 16

Gorbachev seeks to protect unified economy, Page 2

Major seeks support for EMU proposals

By Andrew Marshall. Economics Staff, in London

MR JOHN Major, the UK Chancellor, will today present UK proposals for European Monetary Union to fellow European finance ministers in Brussels.

The UK's resistance to rapid movement towards EMU has previously been a bone of contention. But with other European Community member states sharing some of the UK's fears about the development of a two-tier Europe, and speculation of early UK entry to the Exchange Rate Mechanism, Mr Major may find himself in a stronger position.

Speculation of early ERM entry has fuelled sterling's rapid ascent this year. Foreign exchange markets are likely to reassess sterling today in the light of trade figures for June. If these are favourable, the markets may once again test DM3.

The meeting of finance ministers will discuss a report from the EC monetary committee on EMU. In its first report in March, the committee said some members thought the interim stage could be dispensed with altogether.

The latest report is thought to reflect the differences between member states which see the need for rapid progress on union and those, like the UK, which want a steadier transition.

Mr Major's proposals build upon the progress made in the European Monetary System, but to deflect pressure for rapid transition to a single European currency.

Judge's retirement leaves Bush facing election year dilemma

By Lionel Barber in Washington

PRESIDENT George Bush faces the most difficult domestic decision of his first term in office following the abrupt resignation of Justice William Brennan from the Supreme Court.

The struggle over Justice Brennan's successor already shows signs of turning into an election year issue, with conservatives and liberals each viewing Mr Bush's choice as a battle over the shape of the Supreme Court in the 1990s and the constitutional right to an abortion.

Under the US Constitution, the Supreme Court has the power to review and strike down federal and state laws. This gives the Court a decisive role in moulding all aspects of US society.

Mr Robert Dole, Senate Republican leader, described the Supreme Court nomination yesterday as "the toughest domestic decision President Bush has had to make since he's been President."

The resignation on health grounds of Justice Brennan, 84, the liberal powerhouse who served for 34 years on the bench, came unexpectedly on Friday evening. It left the White House scrambling to draw up a short-list of successors.

Mr Bush, who has angered conservatives and fellow Republicans recently by abandoning his "no new taxes" pledge, is under pressure to stick to the trend of the 1980s when President Ronald Reagan's three appointments gave the Court a conservative tilt. The departure of Justice Brennan offers the chance for a "permananent conservative majority" for the 1990s.

However, the White House appears anxious to avoid a bruising confirmation battle with the US Senate, particularly one which could revolve around the nominee's views on abortion and the Court's landmark Roe v Wade ruling in 1973 which established a woman's constitutional right to terminate her pregancy.

As one senior Administration official said at the weekend: "The Democrats will try to use this to terrify millions of women on the issue of an abortion since anyone we nominate will arguably vote to overrule Roe v Wade."

Senator Robert Dole, Senate Republican leader, said abortion should not be a "litmus test" for the nominee, and he warned the White House: "If you have someone who wants to overturn Roe v Wade, it's going to be a bloodbath getting the nomination confirmed."

Mr Bush, whose public approval rating has shown signs of slipping in recent weeks, said he would decide quickly on his nomination based on merit. "You've got to take a little heat on controversy from time to time," said the President, "but I'm not predicting a controversial nomination."

The signs are that Mr Bush would like to nominate a judge

Continued on Page 16

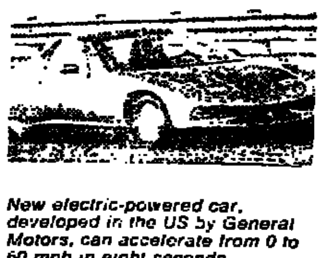
Liberal voice, Page 2

CONTENTS

THE MONDAY INTERVIEW

Britain's police service, says Sir John Dellow, deputy commissioner, is going through a period of condemnation at a time when it is "very likely better led, better managed, cleaner and of higher integrity than it has ever been." **Page 36**

FT SURVEYS THIS WEEK



New electric-powered car, developed in the US by General Motors, can accelerate from 0 to 60 mph in eight seconds.

FRIDAY: Vehicles and the Environment

As a large-scale energy consumer and a contributor to pollution, the world's motor industry has become a major focus of the debate over the environment.

E German coalition split over unification date

By Leslie Colitt in East Berlin

EAST Germany's coalition government hung in the balance last night because of differences over the timing of accession to West Germany and the holding of a joint election.

An attempt by Mr Lothar de Maizière, the Christian Democratic (CDU) Prime Minister, and parliamentary heads of the Social Democratic (SPD) and Liberal parties to end a bitter row over the date of accession was rejected by Liberal and SPD deputies.

Instead, they pressed for a vote in the Volkskammer (parliament) last night, with the risk of a split in the government.

Earlier a compromise appeared within grasp when the CDU and its coalition partners appointed the "German Unity" committees of the Volkskammer and the West German parliament to settle the issues in dispute.

But Mr Rainer Ortleb, parliamentary leader of the Liberals, renewed a threat to take his party out of the coalition. Mr de Maizière has a majority even without the Liberals and the SPD, but needs their votes for the two-thirds majority required to pass important legislation.

A split loomed when the Liberals and SPD moved a resolution that East Germany's accession take place before All-German elections on December 2.

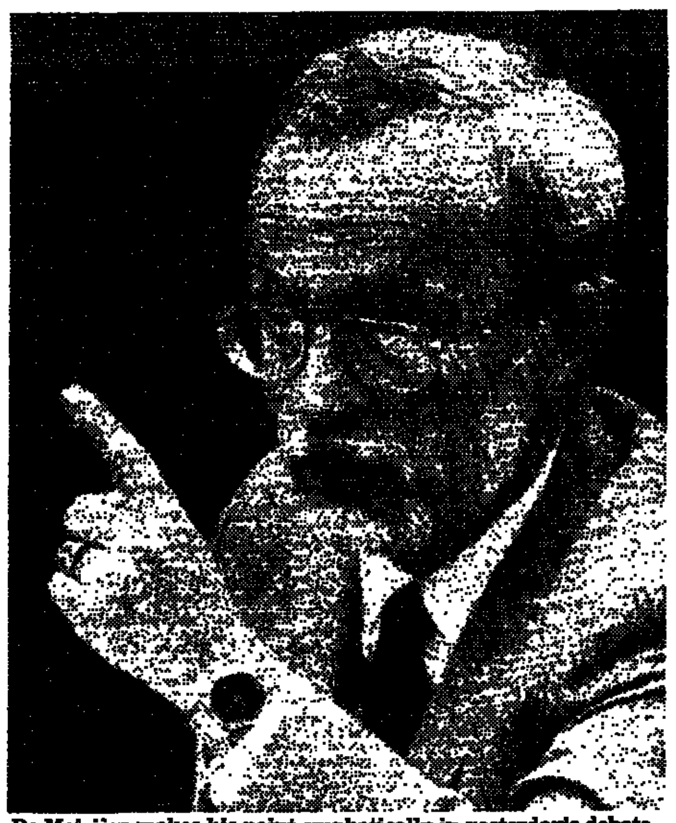
Mr de Maizière, on the other hand, insisted accession take place just after the elections. This is because the Bavarian Christian Social Union and its tiny East German counterpart, the DSU, are likely to fare worse in a joint election than in separate elections.

The DSU, in fact, may be wiped out if a joint election is held under the West German electoral rule eliminating parties which get less than 5 per cent of votes.

Significantly, Mr de Maizière was supported by the Communists, who also fear they will not survive an All-German election.

The conflict within the East German Government has also cast a shadow over the Bonn coalition. Mr Otto Lambsdorff, head of the liberal Free Democrats (FDP), accused the East German CDU of endangering economic recovery and contributing to unemployment by seeking to delay accession until after separate elections.

The Volkskammer voted yesterday to restore the five Länder (states) of East Germany, abolished under the former communist regime.



De Maizière makes his point emphatically in yesterday's debate

Germany's parties play percentage politics

David Goodhart on the significance of the constitutional dispute convulsing East Berlin

BEHIND the bad-tempered constitutional argument within East Germany's ruling coalition – over whether the all-German election in December should be regulated by a single, or by two separate, election laws – lies some brutal party political calculation.

Nothing less than the shape of the party political landscape in a united Germany is at stake, hence the passions that are being raised on East Berlin's otherwise rather homogeneous political stage.

The core of the argument is that if the West German 5 per cent rule (which requires parties to reach 5 per cent of votes cast before they can enter parliament) applies to greater Germany, then many of East Germany's smaller parties will disappear.

This applies especially to those parties like the PDS (the former Communists) and the right-wing DSU which have not merged directly with West German counter-parts and thus, arguably, carry a distinctive strain of East German life worthy of preservation. It applies, too, to the small left-wing groups, like Bundnis 90, run by the people who led last autumn's revolution.

The survival of these parties is likely to take most votes from the Social Democrats (SPD) and the Liberals (FDP). Therefore both groups are arguing vehemently that full political and legal merger must take place just before the all-German election, ensuring a single 5 per cent rule.

The SPD is, cynically, offering Bundnis 90 a few places on its election lists to protect itself from the argument that a single 5 per cent rule will wipe out East Germany's political heritage.

But equally cynically the Christian Democrats (CDU) in both Germanys have suddenly discovered a paternal feeling for groups like Bundnis 90, and even the hated PDS, because of the damage they will inflict on their main opponents the SPD.

The CDU-led West German Government says that the East German Government must decide whether it wants a single or divided elections law, safe in the knowledge that there is a clear majority for the latter option. There seems little way that the SPD can impose its will.

So the first all-German election is likely to produce a greater variety of smaller parties on left and right. But it will also produce an even fatter middle.

That is because, almost unnoticed, the two big West German parties are being significantly changed by the hasty mergers now being arranged with their East German counterparts. The outcome is likely to be a leftward shift in the centre-right Christian Democrats and the opposite for the Social Democrats.

"The East-CDU is much more Protestant and liberal than the west-CDU, and that will certainly be to the benefit of the left wing in the party. You should also not forget that the east-CDU has grown out of an old bloc party [supporter of the old regime]," says a west-CDU official.

He points out that the East German coalition, led by the east-CDU but including the east-SPD, has shown a high degree of consensus around positions "that we in the west would call social-democratic".

Presiding over a giant depressed region all parties are happy to contemplate plenty of state intervention in the young market economy, and in foreign policy there is deep sensitivity to Soviet wishes and, even in the east CDU, the belief that Nato should be effectively dissolved.

The floundering east-SPD has not benefited from this consensus partly because of leadership failure but also because anything left of centre has suffered from association with the old regime.

Hence the east-SPD has had to prove its pro-market credentials to an extent that some west-SPD officials find rather alarming.

But the plain political problem for the SPD in both Germanys is that the CDU is shaping, so far successfully, the unity process, and every attempt by the SPD to get a lever on the process looks like selfish party manoeuvring.

Mr Oskar Lafontaine, the SPD Chancellor candidate, recognised the problem of merely trailing behind the CDU but his remedy – threaten to block unity and then pray for maximum dislocation when it comes – has made matters worse.

Unity is also creating problems for the FDP but that has less to do with politics and more to do with the fact that the east-FDP (another old bloc party) is several times bigger than the west-FDP and refuses to be pushed around. And the anti-unity West German Greens, who might disappear completely if a unified 5 per cent rule applies, are having trouble with their pro-unity counterparts.

Finally, the all-German centre-right has a potential embarrassment in the shape of the DSU – the East German sister party to Bavaria's subdued Christian Social Union (CSU). Some of the DSU's original leaders have left accusing the party of lurching to the right. The DSU's dwindling strength (it polled 6.3 per cent in the March general election but far less in the local elections) is in the southern East German states, into which the CSU may be tempted to tread if the DSU disintegrates.

And if that happens it could re-open the simmering territorial argument between the CSU, which has hitherto kept itself to Bavaria, and the invincible-looking CDU.

Controls sought on US federal enterprises

By Peter Riddell, US Editor, in Washington

THE Bush Administration is seeking to include a far-reaching tightening in financial controls over US government-sponsored enterprises with potential liabilities of nearly $1 trillion (million million) within the budget deficit reduction package under negotiation with Congress.

A limit on federal liabilities on home, farm and student loan guarantee funds is being sought to avoid a repetition of the hugely costly savings and loan rescue. The Treasury is urging that these funds should obtain triple A credit ratings without any implied federal guarantee.

The bipartisan budget talks are approaching a climax as President George Bush, pressing for a deal before the congressional recess in early August, has called daily meetings at the White House.

Senator Robert Dole, the Republican Minority leader, said yesterday that, while a deal was "not close", he thought there would be an agreement – even though Mr Bush's hope of securing congressional approval before the August recess was "probably not realistic".

The package is likely to amount to at least $50bn in the first year and $500bn over five years.

He indicated that the fierce row over raising income tax rates for the well-off to offset any cut in capital gains tax might be sidestepped. Senator Dole said this might enable the President to say he had not raised tax rates.

A compromise might involve limits on personal tax deductions for those in higher tax brackets (affecting mortgage-interest expenses and relief for state and local income taxes), while capital gains tax may be inflation-proofed with no change in nominal rates.

He also suggested that the controversial plan for a tax on stock market transactions might be limited to 15 cents per $100, rather than the 50 cents level initially discussed.

Some of the proposed $25bn in additional revenue in the first year may come from a broad-based energy consumption tax, as well as higher excise duties on tobacco, alcohol and petrol/gasoline.

The White House is pressing for a balanced package including cuts in domestic spending and reform of the budget process as well as higher revenue.

In particular, the Treasury and the Office of Management and Budget want to tighten disciplines on, and increase the capital backing of, government-sponsored enterprises in the wake of the savings and loan debacle.

Under the Treasury plan these enterprises, including the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation as well as various farm credit bodies, would either have to obtain triple A ratings or to produce a business plan designed to secure such a rating.

That might include limits on dividends, growth, debt issuance, salaries, and financial leverage, as well as much strengthened Treasury powers to ensure compliance.

However, several leading congressmen have argued that these proposals should not be considered at the budget summit, but separately in view of their far-reaching implications.

Reservations have also been expressed by some of the affected bodies since new controls might push up costs for homebuyers.

Gorbachev seeks to protect unified Soviet economy

By Quentin Peel in Moscow

PRESIDENT Mikhail Gorbachev and his Prime Minister, Mr Nikolai Ryzhkov, have launched an urgent counter-offensive against plans by Soviet republics to set up separate banking systems, currencies and even customs services.

They have warned the leaders of the 15 republics, meeting in Moscow, that their plans could destroy any hope of a unified Soviet market, and result in even greater chaos in the economy.

At the same time they are proposing the outline of a new union treaty, to become the basis of a transformed Soviet federation, with each republic negotiating its own relationship with the centre.

The plans were put on Friday to the joint meeting of Mr Gorbachev's two new top-level advisory bodies – the federation council, and the presidential council – but full details are only gradually emerging.

What was clear, however, was that Mr Gorbachev and Mr Ryzhkov both launched outspoken attacks on some of the projects now being drawn up for republican economic autonomy – including those in the Russian federation and the Ukraine.

The green light has simultaneously been given for negotiations to begin this week with the rebellious republic of Lithuania, which has agreed to suspend its declaration of independence for the duration of talks aimed at secession.

In so doing, Mr Gorbachev appears to have successfully divided the forces of the three Baltic republics, for Mrs Kazimiera Prunskiene, the *Lithuanian Prime Minister*, expressed her hope at the weekend that the negotiations could be started and finished before any other republics began to talk.

On the other hand, the Soviet leader's urgent attempts to preserve some sort of united Soviet economy in the face of demands for ever greater republican autonomy may have come too late to stop that process accelerating.

He told the joint meeting on Friday that the new union treaty, and the transition to a market economy, were two sides of the same coin. However it was essential "not to disrupt the single economic organism but, on the contrary, to create and consolidate the all-union market by joint efforts," according to the Tass news agency report.

Mr Ryzhkov warned that the republican moves, which now include separate pricing policies in the Baltic republics, and a growing range of attempts to restrict inter-republican trade, "result in further chaos in the economy, and will aggravate the overall crisis which affects all of us.

"Hoping to find a way out of this in isolation at the expense of their neighbours is not simply a mistaken view, but is positively dangerous because of the unpredictable consequences."

Mrs Prunskiene said that the draft union treaty "is based on the principle of a differentiated approach to the competence of each republic, to dividing its competence with the union, and delegating its competence from below – from republics to the union."

However she said that she believed each republic should be given a free choice whether to sign the new treaty or not – thereby having the clear option of leaving the union.

Eleventh-hour bid to agree on farm reform

By William Dullforce in Geneva

TRADE officials from Washington and Brussels flew into Geneva yesterday for a last-minute attempt to reach a compromise over farm reform.

Mr Guy Legras, the European Commission's director-general for agriculture, met Mr Julius Katz, deputy US Trade Representative, and Mr Richard Crowder, Under Secretary at the US Department of Agriculture, yesterday evening. Also there was Mr Aart de Zeeuw, chairman of the group negotiating on agriculture in Gatt's Uruguay Round.

Despite an understanding on agriculture reached at the Houston summit of the seven big industrial powers, the EC and the US remain deadlocked over the programme for negotiating global reductions in farm supports presented by Mr de Zeeuw.

The Trade Negotiations Committee (TNC), the Round's governing body, is due to start a week-long assessment of the state of the trade-liberalising talks this afternoon.

Mr de Zeeuw has called a meeting of the agricultural group earlier in the day, hoping that by then the US-EC dispute will have been resolved. Failure to settle the farm conflict could bring the whole Round to a halt.

The toughest issue is the EC's insistence that reductions in three key areas – export subsidies, border protection and internal supports – must be tied to an aggregate measure of support (AMS).

The US wants a specific commitment from the EC to cuts in export subsidies and acceptance that, as spelt out in Mr de Zeeuw's paper, these cuts should be larger than in the other two areas.

Other reservations listed by the EC last week have angered the Americans, who charge the EC Commission with back-tracking from the Houston understanding.

Meanwhile, another potential crisis, over talks on trade in services, has been averted. There was consternation last week when a draft framework agreement proposed by Mr Felipe Jaramillo, chairman of the services group, emerged with a blank page under the heading "coverage".

Washington had insisted on retaining its option to exclude some sectors, such as shipping and civil aviation, from the agreement.

The US now agrees that in the draft Mr Jaramillo will present to the TNC under his own responsibility will be a sentence stating the agreement concerns "trade in all services sectors".

However, in a footnote to an introductory letter, identifying issues that need to be settled urgently, Mr Jaramillo will note that some delegations believe that countries "could have the right to exclude sectors".

Freer global satellite links closer

By Hugo Dixon

PROSPECTS for a freer global satellite communications market improved last week following initiatives on both sides of the Atlantic.

European Community governments reached preliminary agreement on the need to free up the market, although disagreeing on how far liberalisation should go. US telecommunications authorities were urged to extend their "open skies" policy from the domestic to the international arena by lifting restrictions on private satellite systems.

Development of private satellite communications have been slowed by a maze of restrictions designed to protect monopoly positions of the world's phone companies and the satellite clubs – the International Satellite Organisation (Intelsat) and the European Telecommunications Satellite Organisation (Eutelsat) - which they jointly own.

Users want the flexibility and potentially cheaper telecommunications services that satellites offer. But the telephone companies are fearful their public networks could be bypassed if businesses were free to install small satellite dishes on roofs for communications.

Pan American Satellite, one of Intelsat's competitors, appealed to the US Federal Communications Commission to remove its ban on private satellite operators offering services connected to the public network. The company said the restriction, which was imposed at the request of Intelsat, denied it access to 90 per cent of its rival's market.

Meanwhile, at a meeting in Brussels to consider European Commission proposals to liberalise the market, almost all Community governments accepted the need for some policy easing. The Commission's proposals, which balance conservative and liberal views within the Community, attempt to promote satellite communications for private networks while protecting telephone companies' monopolies over the basic phone service.

The UK and West Germany supported the Commission's approach, but France argued that stronger safeguards were needed to protect the basic phone monopoly.

The meeting was described as positive, paving the way for the Commission to publish its proposals in October.

Commission simplifies merger control rules

By Lucy Kellaway in Brussels

THE European Commission has simplified plans for implementing its merger control regulation, in response to pressure from large companies and member states.

The Commission will approve this week a shorter notification form – the document that all merging companies will have to fill in – allowing the new system to start on its September 21 target date.

Under the merger regulation, agreed last December after 17 years of difficult negotiations, Brussels will have sole authority to permit or to block mergers in the Community with a combined turnover in excess of Ecu5bn (£3.5bn).

The notification form provides all the information the Commission will need to decided whether or not to permit a merger.

The Commission's original plans for the form were complicated and inflexible, and would have involved companies submitting information to which they had no easy access.

Businessmen and lawyers felt it would put a heavy burden on them and would make the whole system of merger control a shambles.

The new form is shorter and companies can ignore entire sections of it if they can prove the questions are irrelevant to their takeover.

Companies will not have to provide exhaustive details of market shares in particular products in particular countries if they do not affect the competitive balance of that bid.

The requirements for conglomerates have also been simplified so that companies will no longer have to supply full details of activities and cross ownership of every related company.

The form will be reviewed after a year.

Although the final draft does not appear to have the whole-hearted support of business, most agreed it was a significant advance from the earlier version and should provide the basis for a workable system.

UK officials said they were broadly satisfied with it, although still had some minor complaints.

EC ministers to finalise removal of tax barriers

By David Buchan in Brussels

THREE of the tax hurdles to cross-border activities between EC companies will be removed today when Community finance ministers formally pass into law measures which have been two decades in the making.

The three measures, on which ministers reached basic agreeement last month, will:

- Remove withholding taxes paid on dividends passing from subsidiaries in one EC state to parent companies in another Community state.

But Germany, which taxes distributed earnings – such as those passing to foreign parent companies – at a higher rate than those profits staying undistributed in the federal republic, is allowed to levy a withholding tax, halved to 5 per cent, until 1996;

- Defer any capital gains tax that is liable on a company in one EC state being taken over by a company in another EC state.

The tax liability, which would be registered at the time of the takeover, would not be collected until the capital gain was actually realised, through a de-merger or liquidation. Thus, a tax barrier to cross-frontier takeovers would be removed while leaving governments assured that companies would not escape their tax jurisdiction scot-free;

- Oblige EC states to settle, through an arbitration convention that the Twelve will sign today, disputes arising out of transfer pricing in inter-group transactions.

To give a hypothetical example of such a dispute, when Ford of Germany sells cars to Ford of the UK, the German tax authorities might complain the cars are being sold too cheaply (reducing taxable profits in Germany), or Britain's Inland Revenue might complain that too much is being paid for the cars (reducing taxable profit in the UK).

However, EC finance ministers are not expected to make any real progress today when they discuss indirect tax issues, such as value-added tax collection post-1992, excise duty approximation and the amount of tax-paid goods travellers can take across internal EC borders.

Liberal voice of the US Supreme Court

Justice Brennan often led the charge into controversial areas, writes **Lionel Barber**

THE RETIREMENT of Justice William Brennan from the US Supreme Court removes the powerhouse behind many of the judgments of the past 30 years, a period when the court acted as an important liberalising force in American society.

In his 34 years on the bench, Justice Brennan helped to establish the principle of "one man, one vote"; the constitutional right of a woman to have an abortion; affirmative action programmes for minorities and protection for welfare recipients and prisoners. He was an opponent of the death penalty and an advocate of freedom of speech under the First Amendment.

Under the separation of powers guaranteed by the US Constitution, the Supreme Court has the power to review and strike down state and federal law - which gives the Court a decisive role in shaping the course of the country.

This was the case in the 1950s and 1960s when the Court entered areas where many politicians feared to tread. On desegregation the Court virtually single-handedly took on segregationists in the South by opening up public schools and universities to blacks, paving the way for civil rights legislation under President Lyndon Johnson.

In more recent years, however, the moral authority which the court gained during the civil rights era gave way to public suspicion that the Justices were exceeding their brief. Critics, many of a conservative hue, argued that the likes of Justice Brennan were guilty of social tinkering by intruding into areas which should be decided at the ballot box and in the legislatures.

Thus, court-mandated decisions on bussing as a means of racially integrating schools proved highly unpopular (particularly in the North). Affirmative action for minorities, which drew praise in the 1960s, unleashed a flood of court challenges in the next two decades as whites complained about reverse discrimination and "job quotas" for blacks. And the constitutional right to an abortion – as set out in the landmark 1973 Roe v Wade ruling – proved bitterly divisive.

Mr Irving Kristol, the conservative thinker, summed up dissatisfaction with the Court's "judicial activism" and its failure to stick to a "narrow" reading of the Constitution: "We have reached the stage where a young girl has a constitutional right to perform in an X-rated movie, provided she is paid the minimum wage."

Justice Brennan remained unapologetic. "We current Justices read the Constitution in the only way we can: as 20th century Americans. The genius of the Constitution rests not in any static meaning it might have had in a world that is dead and gone, but in the adaptability of its great principles to cope with current problems and current needs."

It is probably fair to say that Justice Brennan's own modest background helped fashion his judicial philosophy, best captured by his remark that the Bill of Rights was not merely a collection of words but "an arsenal for achieving human brotherhood."

William J. Brennan Jr was born in Newark in 1906, second oldest of eight children of Irish immigrant parents. His father was a coal heaver in a brewery who became a union leader, a Democratic party official and a police commissioner. Brennan Jr, who won a scholarship to Harvard, studied under Professor Felix Frankfurter (a subsequent Court appointee) and went on to private practice in New Jersey. He joined the state Supreme Court in 1952.

Justice Brennan was appointed to the Supreme Court in 1956 by President Dwight Eisenhower who, much impressed by John F. Kennedy's strong showing at the Democratic convention, thought the idea of appointing a Catholic to the bench might prove a politically popular move. Later, the Republican president was shocked to discover he had appointed another liberal to bolster Chief Justice Earl Warren.

Asked if he had made any mistakes while at the White House, President Eisenhower said: "Yes, two, and they are both on the Supreme Court," referring to Justices Brennan and Warren.

What became known as the "Warren Court" was in fact the "Brennan Court". For it was Justice Brennan, the gregarious Irish-American, ever insistent on being called "Bill" by colleagues, friends and strangers alike, who for many years remained at the centre of gravity. Sometimes, particularly in the 1960s, he found himself to the right of more liberal justices such as William O. Douglas and Hugo Black; more often he was leading the charge.

In the past decade the balance of power has shifted to the right, partly reflecting the shift in political mood in the US but more directly because of President Reagan's good fortune of being able to make three new appointments to the bench. Thus Justice Brennan has seen many of his 1,200 opinions eroded, and his own legacy denounced as one of "radical egalitarianism."

Yet his legacy will probably live on for some time. His views have penetrated the minds of a generation of students, law scholars and judges. Moreover, as President Reagan discovered to his cost in 1987, when the Senate overwhelmingly rejected the nomination of Judge Robert Bork, the country does not appear to be ready for a cast-iron conservative who will overthrow the Warren/Brennan Court in its entirety.

WORLD ECONOMIC INDICATORS

RETAIL PRICES (1985=100)

	Jun.'90	May.'90	Apr.'90	Jun.'89	% change over previous year
US	120.8	120.1	119.8	115.4	+4.7
Japan	107.8	108.5	107.9	105.5	+2.2
W.Germany	106.8	106.7	106.5	104.4	+2.3
UK	133.9	133.4	132.2	122.0	+9.8
France	116.0	115.8	115.5	112.5	+3.1
Belgium	110.3	110.2	110.2	107.1	+3.0
Netherlands	103.1	103.2	103.2	100.9	+2.2

Source: (except US) Eurostat

Zambians take multi-party step

PROMINENT pro-democracy campaigners in the Zambian capital of Lusaka this weekend elected a steering committee to fight for the end of two decades of one-party rule, writes **Mike Hall in Lusaka**.

The committee immediately called for the fresh registration of voters, saying it would take legal action if the Government refused to re-open voters rolls to allow more people to participate in the October 17 poll.

Mr Arthur Wina, a former finance minister and businessman, was elected chairman of the newly-formed national interim committee for the re-introduction of multi-party democracy.

Mr Frederick Thiluba, head of the Trade Union Congress, is his deputy.

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INTERNATIONAL NEWS

Egypt moves to defuse Iraqi row with neighbours

By Max Rodenbeck in Cairo

MR TAREQ AZIZ, Iraq's Foreign Minister, repeated criticism of Kuwait and the United Arab Emirates (UAE) after talks with Mr Hosni Mubarak, the Egyptian President, yesterday. But officials and foreign diplomats in Cairo are optimistic a rift caused by angry Iraqi charges that over-production had sent oil prices plummeting earlier this year can be healed.

Efforts to mediate in the Iraqi dispute and a separate rift between Egypt and the Palestine Liberation Organisation (PLO) are expected to head the agenda during a surprise meeting between Mr Mubarak and King Hussein of Jordan, due to be held in Alexandria today. Mr Aziz is also expected to attend.

In an apparent reference to the Gulf oil-producing states of Kuwait and the UAE, Mr Aziz said: "We are not threatening anyone. They are the ones threatening us."

But the Egyptian president, echoing the sentiments of other Arab leaders, described the dispute between Iraq and the Gulf states as "a cloud which will pass over".

Mr Mubarak is believed to have asked Iraq to tone down its belligerent rhetoric; Iraq has accused Kuwait of "stealing" $2.4bn (£1.3bn) worth of its oil and "paving the way for foreign powers to intervene in the region".

Mr Aziz's visit appears to have ended a row between Iraq and Egypt, sparked off earlier this week by critical remarks attributed to the Iraqi minister.

He and Mr Yassir Arafat, the PLO leader, criticised Egypt's absence from a conference of Arab foreign ministers held in Tunis last week, drawing sharp reactions from the Egyptian press.

Iraq's official media yesterday fanned the flames of the confrontation with Kuwait, with one paper calling on Kuwaitis to denounce their rulers, AP adds from Baghdad.

● Mr Sadek Boussena, Opec president, said the organisation would leave current oil output quotas largely unchanged at its meeting in Geneva on Thursday and would work to boost oil prices above $18 a barrel, Reuter reports from Algiers.

He told the London-based Arabic daily newspaper al-Hayat in an interview to be published today that Opec would set an oil output ceiling of 22.5m barrels per day, less than average projected demand for Opec oil for the rest of the year.

Iran attempts to mediate in south Lebanon fighting

By Lara Marlowe in West Beirut

INTENSE fighting continued yesterday in the Hizbollah-held village of Jarjou in southern Lebanon despite attempts by the Iranian embassy in Beirut to mediate a ceasefire.

The battles, which killed at least 51 people and wounded 125 others over the weekend, followed a failed assault early on Saturday by the Syrian-backed Shia Moslem Amal militia and its allies in the Palestine Liberation Organisation. Jarjou is a few miles north of Israel's self-declared security zone in southern Lebanon.

The pro-Iranian Hizbollah seized the hilltop village from Amal on July 16. Fearing that the Hizbollah might threaten Sidon, where the PLO maintains 10,000 fighters, the PLO deployed a 600-man "intervention force" between Amal and Hizbollah lines.

At the weekend 250 PLO guerrillas joined the Amal militia after several PLO fighters had been killed by grenades launched by the Hizbollah. Amal lost the initiative in the assault when the PLO pulled back after leading Saturday's attack. About 7,000 shells and rockets have been fired on Jarjou and surrounding villages over the past two days.

Israel sets out to probe the extent of EC's disapproval

By Hugh Carnegy in Jerusalem

THE relationship is under stress, says a senior Israeli official. "The mood has got a bit rough," echoes a European Community diplomat.

Just how strained ties between Israel and the EC have become will be tested today when the EC's "troika" of foreign ministers – those of current Commission chairman Italy, Ireland the predecessor and Luxembourg the successor – meet Mr Yitzhak Shamir, the Prime Minister, and Mr David Levy, his Foreign Minister.

The brief visit, arranged in Jerusalem because Mr Levy is recovering from a heart attack, is the first since EC leaders voiced outspoken concern about Israeli policy in the occupied territories at the Dublin summit.

It also has a broader aspect than just Israel-EC relations. It represents the highest level face-to-face contact Mr Shamir and Mr Levy have had with western ministers since their controversial right-wing coalition was established in June.

To Mr Shamir's consternation, his Government's relationship with its chief ally, the US, has been markedly cool. Aside from an unexpected meeting last Friday between Mr Moshe Arens, the Defence Minister, and Mr Richard Cheney, the Secretary of Defence, even customary telephone contact has been replaced by exchanges of letters.

It was announced at the weekend that Mr Levy will see Mr James Baker, the Secretary of State, in Washington in August. In the meantime, Israel suspects that the EC troika is acting as something of a stalking horse for Mr Baker in probing how far Jerusalem is prepared to go to revive a stalled US-backed formula for starting Israeli-Palestinian talks on the occupied territories.

The suspicion looks well-founded. EC officials acknowledge that today's visit has been co-ordinated with the State Department. This is worrying to Israel because of the fear that Washington – if it felt its peace moves were being frustrated by Mr Shamir – might move closer to the stance of the EC, which supports convening of an international conference on Middle East peace with participation by the Palestine Liberation Organisation.

Such a possibility still looks far off. But even without the US dimension, Israel is showing signs of concern about EC policy towards it, which until recently it tended to play down.

Worries about Israel's trading position within the EC – its most important export market – after the 1992 internal market reforms take effect, and the fear that the Community will use economic means to achieve political ends have altered the picture.

An immediate issue is the Commission's intention, mandated by the Dublin summit, to appoint a representative to the territories to oversee the sharply increased levels of direct EC aid to the Palestinians – set to double to Ecu12m (£8.29m) a year by 1992. Israel is insisting the representative's status will not amount to a permanent EC office in the territories.

EC concerns about human rights violations in the West Bank and Gaza will figure highly in the talks, with Mr Levy complaining of unfair treatment by the EC compared to its relations with Arab states.

He will object particularly to actions by the Community linking political and economic issues. Late last year the European parliament called on the Commission to halt scientific co-operation projects in protest at events in the West Bank and Gaza. The Commission did not do so but, in a pointed warning of how things might develop, it cancelled a visit to Israel by Mr Abel Matutes, the EC commissioner for Mediterranean Affairs.

EC officials also say that Israel's wish to upgrade its near-free trade agreement with the Community in the wake of 1992 is bound to be affected by political considerations.

Accountants put down markers across the Channel

Anglo-Saxons are competing more vigorously for opportunities on the Continent, writes **David Waller**

THE British are coming! This was the UK film industry's battle-cry as it made its assault on Hollywood. Now the cry is being taken up by UK accountants as they launch themselves vigorously into continental Europe's undeveloped markets.

Of the 300,000 qualified accountants in EC and Efta countries more than half work in Britain. Increasingly, they and their firms are turning their sights to the Continent.

This month, for example, the 86,000-strong Institute of Chartered Accountants in England & Wales (ICAEW) held its first overseas conference in Brussels. Although delegates numbered only a few hundred, the conference was of symbolic importance: the century-old organisation is the biggest professional accountancy body in Europe and perhaps the most influential in the world.

The manoeuvring of big international accountancy firms is likely to have more direct impact on the European profession. With varying degrees of success and efficiency, the so-called Big Six and medium-sized firms below them have been jostling for position on the continent, experimenting with management structures and forging and unforging alliances.

It would be wrong to paint the large firms as strictly British institutions: local laws and fiscal requirements mean they are all federations of national firms with varying international coherence. Some are more federal than others – Coopers & Lybrand and KPMG Peat Marwick like to stress the importance of giving free rein to strong national firms. Others, like Arthur Andersen and Price Waterhouse, are more tightly run from the centre.

Yet however local the flavour of individual organisation, the firms offer an Anglo-Saxon approach to professional services which is often at odds with the business culture of the countries where they operate.

They are beginning to compete aggressively in markets where there has traditionally been a dearth of competition - for example, auditing - and are happy to apply the same vigorously commercial tactics to markets traditionally handled by other professionals. One example is tax advice, preserve of lawyers in many continental European countries.

"We are driven by the needs of our multinational clients," says Mr John Bullock, chairman of Coopers & Lybrand's 30,000-strong European firm. "Clients want the same range of service on the continent as they get in the UK, delivered to the same high professional standards."

"It is a question of matching the UK's massive resources to the massive market on the continent," observes Mr Howard

THE EUROPEAN MARKET

Hughes, PW's managing partner. "On the continent, the profession is not developed to the same degree as it is here. In the end, we will produce more resources than we can possibly deploy in the UK market."

Another reason for the onslaught is that, apart from Asia, continental Europe is the last great undeveloped market for international accountancy firms. In the US, accountancy business is mature if not stagnant; in the UK, some form of cyclical slowdown is expected after a decade of unprecedented growth.

Virtually all markets which big firms serve in the US and the UK are "immature" on the continent and ripe for exploitation. This applies as much to the staple business of auditing as to other activities into which firms have successfully ventured, including management consultancy, tax advice, corporate finance and insolvency services.

Take auditing: only 67 per cent of Europe's larger listed companies are audited by Big Six firms, against 87 per cent in the US. The big firms hope to detach these companies from local auditors to win a permanent source of income while opening opportunities for other more profitable services.

Among other services, consultancy probably offers the biggest prize. Much of the firms' growth in the UK in recent years has come from information technology consultancy. This fast-growing market, worth an estimated £1.8bn in 1989 in the UK alone, is less developed in many continental countries.

East Europe also beckons. Though the firms are at present probably making little money out of the privatisation projects they are handling in the east, all are keen to establish themselves there.

The potential is reflected in Price Waterhouse's performance since it took steps to bring its continental and UK firms closer in October 1988: staff has grown from 8,600 to 15,400 (partly through merger); revenues from consulting have doubled, while in tax and auditing they are up 60 and 50 per cent respectively. The firm predicts it will double staff in Europe, including the UK, over the next two years.

While the EC's single market programme is opening opportunities, it is also creating uncertainties and problems for big international accounting firms:

● The Commission has commissioned an independent report on competition effects of last year's round of mergers between the firms: adverse findings could prompt an unscrambling of firms' recent alliances.

● Much EC legislation – specifically the fourth, seventh and eighth Company Law directives – has assisted international firms by promoting harmonisation of accounting and auditing standards on the basis of international principles. But some Brussels-inspired legislation may be unwelcome. For example, the draft fifth Company Law directive proposes that auditors be rotated every 12 years.

Furthermore, Mr Geoffrey Fitchew, head of the Commission's financial services directorate, indicated at the ICAEW conference that the Commission was likely to take steps to guarantee auditors' independence. This could mean a complete separation of auditing from consulting and other types of business, as well as rotation of audits.

The firms are unlikely to welcome either move. Italy introduced similar laws nine years ago, with the result that the Big Firms complain it is very difficult to do business in one of the EC's more vigorous economies.

● The Commission is formally committed to a single market in financial and professional services: but in most cases member states are left to regulate their own professions. The big firms complain that local rules discourage competition: in many countries, firms cannot practise under their international names and in only four of the Twelve can accountants advertise.

A forthcoming directive on mutual recognition of professional qualifications may make it easier for individual accountants to practice in different countries, but it is unclear whether there will be liberalisation of what firms themselves can do.

These hurdles should not, however, prove insuperable for the international firms, which have unrivalled technical resources and successfully adapted to rapidly-changing international markets.

Their biggest challenge is unlikely to be a shortage of opportunities, but organising themselves to exploit them fully. Merger activity in the industry last year underlined the inherent instability of the federal structure of the big firms and the weakness of the links between their practices in different countries.

INTERNATIONAL NEWS

Australia to investigate practises in wool market

By Kevin Brown in Sydney

THE Australian Government yesterday moved to end speculation over the floor price for the world's biggest wool industry by announcing an inquiry into pricing and marketing arrangements.

Mr John Kerin, the Primary Industries Minister, said the inquiry would be headed by Sir William Vines, a former chairman of the Australian Wool Corporation (AWC), which operates the floor price scheme.

Mr Kerin foreshadowed an inquiry into the industry in May, when he announced a cut in the floor price from A$8.70 ($11.04) per kg to A$7 per kg, against the wishes of both producers and exporters.

The floor price is the threshold for intervention by the AWC, which has built a stockpile of nearly 3m bales of wool following a long period of over-production.

Mr Kerin said the inquiry would examine the role of stockholding in price stabilisation, the mechanism for setting the floor price, and the role of the International Wool Secretariat, which is based in Leeds, in the UK.

Cossiga orders probe of CIA terror role

ITALIAN President Francesco Cossiga has called for an investigation into allegations the CIA was behind a wave of terrorist outrages in the country in the 1970s, Reuter reports from Rome.

The allegations were made earlier this month in a state television broadcast by a man called Dick Brenneke, who said he was a former agent of the CIA.

"The gravity of the statements broadcast rests above all in the affirmation that the CIA triggered off the terrorism of the 1970s in Italy through the P-2 Masonic lodge," Cossiga said in a letter to the Prime Minister, Mr Giulio Andreotti. Cossiga's office released the letter on Sunday after widespread newspaper leaks.

Mr Brenneke alleged that P-2, a powerful Masonic lodge exposed in 1981, was still active although it had been banned.

Saudi recognises Peking and deals blow to Taiwan

By Peter Wickenden in Taipei

TAIWAN's foreign policy was dealt a severe blow at the weekend as Saudi Arabia, its last ally in the Middle East, recognised Peking as China's only legitimate government.

In an indignant statement Mr Fredrick Chien, Taiwan's Foreign Minister, accused Peking of buying Riyadh's favour with discounts on missile deals.

Last year Peking accused Taipei of luring small developing countries with promises of development loans. Peking has succeeded in isolating Taiwan internationally to the point where only 27 countries now recognise the island's nationalist government.

Of these all are insignificant except South Africa and South Korea. Seoul has distanced itself from Taiwan and will probably be the next to switch recognition to Peking.

During four decades of formal ties, Taipei and Riyadh have co-operated on a number of agricultural, medical, scientific and infrastructure projects. These are likely to continue with furtive meetings between low-ranking officials.

Riyadh is expected to set out the level and nature of future ties in a meeting this week with Mr Edward Kuan, Taiwan's ambassador to Saudi Arabia.

Mr Asaad Abdul Aziz al-Zuhair, the Saudi ambassador to Taipei, said yesterday that the break in formal relations amounted to little more than a change of name for Taiwan's embassy.

Taiwan's state-run Chinese Petroleum Corp will continue to buy the bulk of its crude oil from Saudi Arabia, but the company will make no further investments there.

Compounding the impact of Saudi Arabia's perceived "desertion" are moves toward Peking by several Asian countries that do not now have embassies in either China or Taiwan.

These include Indonesia and Singapore, whose President Lee Kuan Yew has visited Taiwan at least 15 times.

Academics in Taipei blame successive setbacks in the country's foreign policy on the government's muddled stand toward China. They have called for official contact between Taipei and Peking.

Taiwanese businessmen boost investment abroad

By Peter Wickenden

APPROVED outward investment by Taiwanese industry in the first half of this year reached $730.13m (£401.2m), a 545.7 per cent gain on last year's corresponding period.

As most businesses do not report their activities for tax reasons, the total figure is routinely believed to be seven to 10 times the approved amount. The capital has gone mainly to the US, with Malaysia, the Philippines, Indonesia, Thailand and China among the biggest recipients in Asia.

The Investment Commission, which reported the figures, said finance and insurance had featured prominently in recently approved cases, as had acquisitions of foreign companies to gain high technology.

Taiwan attracted investment from foreigners and expatriate Chinese worth $1.23bn to the end of June, an 8.7 per cent rise on the first half of 1989. This focused principally on chemicals, trading, finance and insurance, electronics and service industries.

The commission noted that of expatriate Chinese investment in Taiwan, 62 per cent came from Hong Kong and the Philippines. This suggested that Taiwan's investment climate is still seen as relatively secure.

Japan, the US and Europe accounted for the majority of other investment in Taiwan; most of their projects being associated with high-precision manufacturing.

Taiwan is presently changing its range of incentives to encourage high technology and capital-intensive inward investments.

Tamil Tigers bomb cuts off Jaffna peninsula

By Mervyn de Silva in Colombo

TAMIL TIGER separatist guerrillas have destroyed the Elephant Pass causeway, the only link between the Jaffna peninsula, the Tamil "homeland", and the remainder of Sri Lanka.

An army spokesman said there was little doubt that blasting of the causeway was a pre-emptive move against an expected attack on Tiger strongholds in the north.

"We will have to send our men and material by sea and air, and that is both time-consuming and costly," Major-General Denzil Kobbekaduwa, the northern commander, said. "The next 10 days will decide the fate of the Tamil Tiger military machine," he added.

Defence officials in Colombo suggest the Tigers' intention may have been to force refugees fleeing fighting in Jaffna City to cross the narrow Plak Straits to the south Indian state of Tamil Nadu.

The Colombo Government has set up refugee camps south of the peninsula for civilian families fleeing Jaffna City, parts of which have been under continuous bombardment in an attack designed to free 250 Sinhalese soldiers under siege in an old fort.

Refugees will now be unable to leave the peninsula but will flee instead to Tamil Nadu in fishing boats. This may prompt Indian intervention, the Tigers hope.

Up to 25,000 Tamil families have already fled Jaffna City and the Indian Government has expressed "deep concern" over the exodus.

● Security forces yesterday unveiled scores of decaying bodies half-buried in the eastern Sri Lanka bush and said they were policemen abducted and killed by Tamil Tigers, Reuter adds.

The guerrilla group ended 13 months of peace talks on June 11 and seized about 1,000 policemen, most of them from the majority Sinhalese community. Tamil policemen were freed and some others escaped, but the government said 630 were missing, believed dead. Government forces yesterday estimated there were between 150 and 200 corpses in the mass grave.

The army is fighting to regain control of the rest of the region from the LTTE.

Delhi increases pressure over kidnapping

THE Indian Government has put pressure on the state government of Assam to secure the release of a senior Indian Oil Corporation executive, his 24-year-old son and their driver who were kidnapped by the United Liberation Front of Assam (Ulfa) on July 16, Kunal Bose writes from Calcutta.

The whereabouts of the three is unknown, despite efforts by the Assam Government to use neutrals to secure their release. Ulfa has said it will release the three provided the state government also frees three members of its organisation. The extremist group has threatened to kill its hostages unless the suggested trade off takes place by tomorrow.

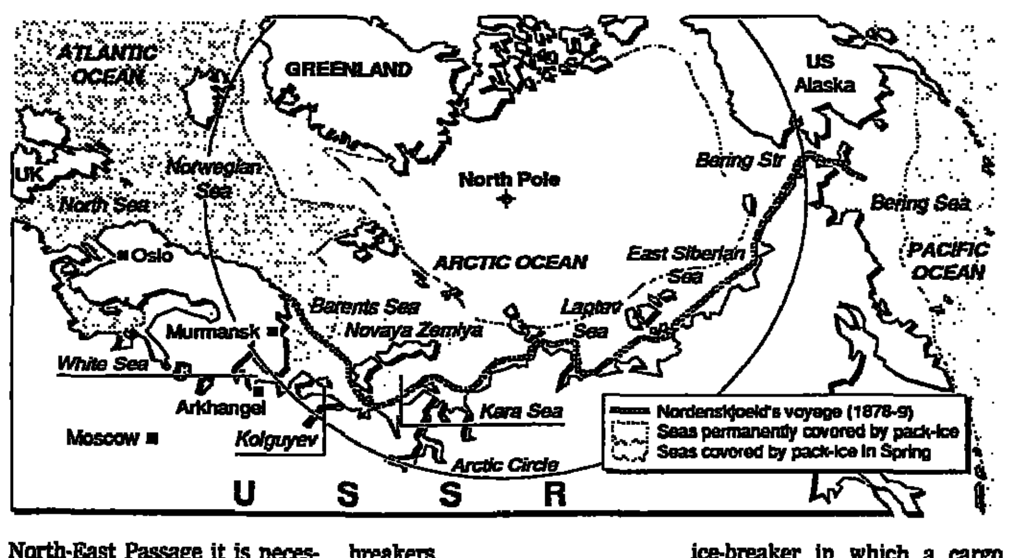
The Assam government has shown a readiness to talk to Ulfa.

Soon after the kidnapping, Mr George Fernandes, the Railway Minister, and Mr M.S. Gurupadaswamy, the Petroleum Minister, flew to Guwahati, where the kidnapping occurred, to help resolve the issue.

Mr Gurupadaswamy announced on arrival that Rs8bn (£258m) would be invested to develop Assam's oil industry over the next five years. Such investment in one of the state's two leading industries – the other being tea – should please Ulfa, which believes the state has been discriminated against since 1947.

Charting an icy route to the east

Karen Fossli on the efforts to open the North-East Passage to Asia



THE Soviet Union has called on Norway to lead an investigation into the implications of opening the ice-clogged North-East Passage as an all year round commercial trade route for shipping.

The move follows a meeting of researchers from the Soviet Union, Norway, Britain and the US in Oslo last month to discuss research into the route, which the Soviet Union originally developed in 1935 while settling northern Siberia.

The North-East passage runs roughly 3,000 nautical miles through the Barents and Kara Seas, the Bering Straits and leads to the northern Pacific Ocean.

Mr Willy Oestreng, director of Oslo's Fridtjof Nansen Institute which is co-ordinating the project, believes that by the turn of the century it may be possible to keep open the Passage the whole year round.

The programme which is jointly co-ordinated with the Leningrad-based Central Marine Design and Research Institute (CNIIMF) will begin with three initial pilot studies lasting eight months and starting in August. They will look at the economics of commercial shipping in the light of the changing world trade patterns; the potential environmental impact posed by more extensive usage of the Passage; and the legal, political, and military interests involved in a Northern Sea Route.

The main project will then be launched once financing is secured.

"Thousands of kilometres of travel would be saved with the opening of the Passage and in turn time and money. " Mr Oestreng says. At the moment the passage is navigable only three to four months a year, although segments of it are open all the time. "In order to interest the international shipping community in using the North-East Passage it is necessary to keep the entire route open year-round," Mr Oestreng says.

The North-East Passage, was forced first in 1878-9 by Swedish arctic explorer Baron Nils Adolph Erik Nordenskjoeld during a dramatic, two-year voyage. In 1932 German Professor Otto Schmidt completed the voyage in two months with the Soviet ice-breaker Sibiryakov. Setting sail from Arkhangel in the Soviet White Sea, Mr Schmidt defeated near impenetrable masses of ice pack to reach the Pacific.

Mr Schmidt made a second attempt the following year in the Soviet 4,000 tonne cargo ship Chelyuskin. The first aim was to test the practicability of passing merchant ships through the northern sea lane. This time, however, the ship was crushed by ice floes and sank.

By the outbreak of the Second World War this route had become a regular limited summer sea-lane for convoys of merchant seamen aided by ice-reconnaissance aircraft and great Soviet Stalin-class ice-breakers.

Despite the thawing in east-west relations, the military significance of the region remains significant.

The Soviet Union has always held the view that the North-East Passage sea-route falls under the administrative jurisdiction of Moscow while the West has claims it is an international sea lane. For more than 70 years the two have been deadlocked over the issue. "If the Passage is opened on a year-round basis it is an acknowledgement by Moscow that it is in fact an international commercial shipping waterway, " Mr Oestreng said.

He believes that Soviet willingness to involve the West reflects Moscow's need for hard currency which could be earned by providing ice-breaker expertise and navigational experience for convoys in ice-infested waters.

Last year, two trial voyages were successfully made during the summer and later this month a new convoy will set out led by the ultra-modern 18,000 deadweight tonnes (dwt) "Taymyr" nuclear-powered ice-breaker in which a cargo from Continental Europe will be transported to the Pacific.

"Technically we're ready to open the passage year-round but there are other issues which much first be addressed such as the political and military aspects," according to Mr Vassily Loban, director of foreign affairs for the Murmansk Shipping Company. The Taymyr nuclear-powered ice-breaker is said to have the capability to break up two-metre thick ice at a speed of 2.5 knots.

Mr Oestreng said that a pre-condition for the launch of the main North-East Passage research project is that previously unpublished Soviet data should be made available to the researchers.

Ultimately, fear of damaging the environmental may forestall year-round use of the passage. With memories of the environmental disaster that followed the grounding of the Exxon Valdez in Alaska still fresh, serious thought must be given to the potential impact of an arctic ice flow on a fully-laden ultra large crude carrier.

UK NEWS

Economic estimates 'misled' Lawson

By Rachel Johnson

EARLY ESTIMATES of demand and economic activity in the years 1986-89 gave the Government "misleading indicators," an article in the first issue of Treasury Bulletin states today.

According to the centrepiece article by Mr Jim Hibberd of the Treasury's economic forecasting and analysis division of official statistics, the estimates "clearly understated the buoyancy of the economy."

This underestimate is thought to have misled the then Chancellor, Mr Nigel Lawson, into unleashing consumer spending power with his tax-cutting Budgets.

At the time of the 1988 Budget, initial estimates of growth of domestic demand in 1987 understated the latest estimates by no less than 2.25 per cent, the bulletin states. Another contributing factor was the unprecedented, unpredictable shifts in behaviour by the personal sector.

The problems with the statistics are "complex and interrelated," the Bulletin says. However, the problems for most urgent attention were: the different measures of gross domestic product, which were "incoherent;" the data on domestic demand, which suffer "substantial and frequent revisions;" and the "inconsistencies" of the national and financial accounts.

Since 1987, the inconsistencies in national accounts – the GDP series – widened "to unacceptable levels." The measure known as GDP(E), the sum of all the expenditure in the economy including consumer spending, was "persistently waywards." At one stage it lagged 5.5 per cent below the measures for output and income, thus giving a distorted picture of the strength of the economy. The Central Statistical Office has been forced to reconcile the three measures with what Mr Hibberd describes as "judgmental revisions."

The Treasury has announced that it is carrying out a review of the balance of payments statistics in preparation for the single European market in 1992.

Societies' better margins since cartel's end

By Anthony Robinson, Economics Staff

BUILDING society interest rates have usually been higher than market interest rates since the old cartel arrangement was abolished, according to a study of building society deregulation in the Treasury Bulletin.

The study also found that societies had improved their margins in the face of increased competition from banks and other financial institutions in the mortgage lending market.

The erosion of their former ability to raise funds for lending at below market rates has been one of the main consequences of the ending of the cartel system whereby both the mortgage rate and the share deposit rate were "recommended" by the Building Societies Association.

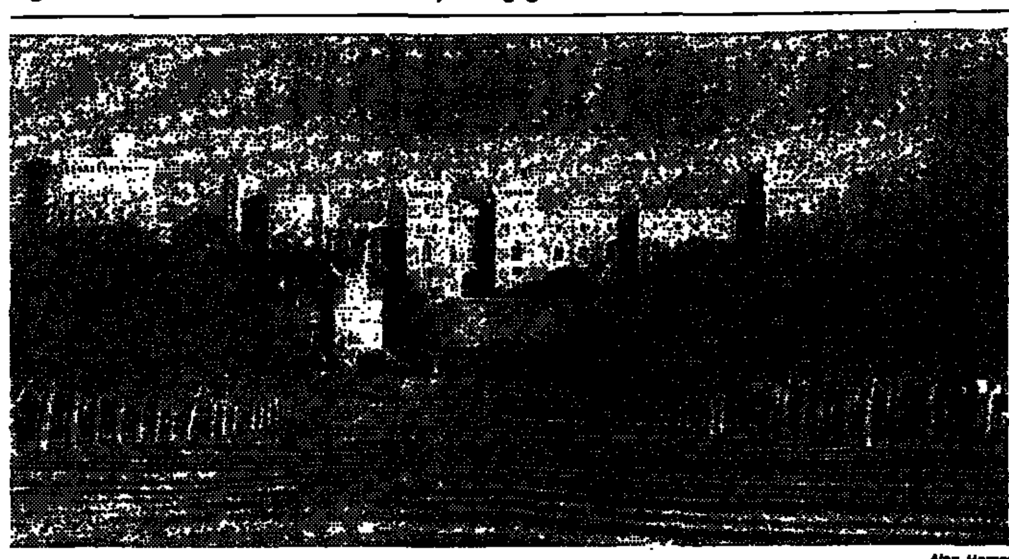
It was a system, the bulletin noted, in which "the borrower lost out through delays in getting a mortgage and a general lack of flexibility about the product on offer but probably gained through paying a rate of interest on average below the market clearing rate."

Once the old scheme ended, however, mortgage rates rose to around market clearing levels and were nearly always above base rates until mid-1988. But since then mortgage rates have been below base rates for substantial periods.

Another consequence for the societies was the entry of banks into the mortgage market. Up to one third of net new lending came from this source in 1982 and 1987. Non-bank financial institutions, including insurance companies, accounted for 16 per cent of new lending in 1987 when the societies' share of the market fell to around 50 per cent. Since then, the societies have climbed back to account for 73 per cent of new mortgage lending in 1989. In that year non-bank financial institutions' share fell to a mere 7 per cent.

The bulletin forecasts that "competition between banks and building societies will increase." The bigger societies in particular are expected to move towards becoming full service retail financial institutions, competing with the banks over the whole range of retail financial services.

Treasury Bulletin. HMSO, £5.50.



Alan Harper

Windsor Castle: England's heritage earned £14bn in tourism last year

Tourism chiefs consider impact of a record numbers of visitors

By David Churchill, Leisure Industries Correspondent

THE THREAT to the environment from Britain's buoyant tourist industry is worrying industry chiefs now that figures out next week are expected to set a new record for tourist arrivals in the first half of the year.

The English Tourist Board is planning to carry out a comprehensive survey on the impact of tourism on historic towns and cities and draw up proposals for better tourism management.

In conjunction with other tourist groups, the board is to compile a "Good Tourist Guide" to educate visitors in looking after England's countryside and fine buildings.

Mr William Davis, recently appointed chairman of the tourism board, says that "tourism growth at any price is no longer acceptable, especially in environmental terms." The board's figures show that tourism in England was worth £14bn last year and is now one of the fastest growing industries in Britain. Of this total, some £8bn was spent on sightseeing by Britons and £6bn by visitors from overseas.

The London Tourist Board is particularly concerned about the impact of tourism on central London. It has devised a strategy and a three-year action plan to tackle the worsening problems of transport, litter, hotel accommodation, manpower and lack of investment. It also plans a "London Against Litter" campaign.

The board believes its strategy could see a doubling in tourist expenditure in London to £10bn by the end of the decade. It also believes that London needs to project its case more strongly. "Unless London finds a voice to champion its cause, it will lose its position as the cultural and commercial capital of Europe," says Dame Shelagh Roberts, chairman of board.

The top English tourist attraction last year was Blackpool Pleasure Beach, with 6.5m visitors, followed by the Albert Dock in Liverpool with 5.1m, and the British Museum in London with 4.7m.

Companies responding to 'green' issues says IoD

By John Hunt, Environment Correspondent

COMPANIES are changing the way they do business to take account of increased concern for the environment, according to a survey by the Institute of Directors.

Many of them also believe that the need to deal with pollution will result in increased costs and lower turnover.

But Mr Peter Morgan, director general of the IoD, said: "Increasing awareness of the environment should be seen by business as an opportunity rather than a threat."

In a survey of institute members 49 per cent said that their board's activities have changed over the past year to reflect the growing environmental concern. In addition, 43 per cent claimed that their company had a specific environmental policy while 21 per cent said they had a person directly responsible for environmental matters.

Some 54 per cent expected that increased environmental legislation and regulation would raise costs associated with their businesses. Only 25 per cent thought that such legislation would raise turnover.

However, Mr Morgan pointed out that new business opportunities were opening in environmental areas such as waste disposal, water purification and recycling.

He said: "Environmental protection will provide existing business with benefits such as cost savings from increased energy efficiency."

He added that all business will ultimately have to become more environmentally aware in response to public concern. Companies looking at their practices now and adapting them to take the environment into account were making a wise investment.

Gould turns his attention to environmental policy

Labour says it is ready to put green issues ahead of traditional ideology, David Thomas reports

MR Bryan Gould, the shadow Environment Secretary, has been busy harassing the Government over the poll tax. Yet he wants to devote more attention to the rest of his portfolio – environmental matters.

The demands of attacking the poll tax have prevented Mr Gould from focusing fully on greenery. In this one respect at least, Mr Gould sounds like Mr Chris Patten, his opposite number in the Government.

"When I took this job (in November 1989), I imagined I could make a lot more progress on the green agenda. But then no one envisaged the extent to which the poll tax would dominate things," Mr Gould says.

Labour's environment spokesman plans to put this right with a string of speeches on the environment. His "break for freedom," as he calls it wryly, will culminate in the publication later this year of Labour's policy document on the environment – an attempt to upstage the Government's white paper on the subject.

There are two barriers to taking Labour seriously on the environment – the second of which Mr Gould half-acknowledges.

First, Labour has to contend with the widespread perception that the Conservative Party in general, and Mrs Margaret Thatcher in particular, have been responsible for bringing in green concerns from the fringes of politics.

Mr Gould's tactic is to argue that the Government's decisions do not match its rhetoric. He claims that the Prime Minister values the instincts of motorists above pressure for less car-based pollution, and selling the electricity industry above saving energy.

Bryan Gould: making the environment a priority

Second, Labour has not been known for its progressive thinking on the environment, a fact that its critics blame on its close relations with producer groups such as the unions.

"We are traditionally seen as a 'producerist' party, always giving priority to jobs and pay packets rather than to environmental concerns."

Yet Labour has changed its spots, Mr Gould insists. He points to Labour's willingness to back the targets for dealing with global warming and the depletion of the ozone layer promoted by the Scandinavian countries and West Germany. These are tougher than the British Government is prepared to accept.

"The real test is that we are prepared to take the side of the environment – even if it runs against some of our ideological goals," Mr Gould argues.

One of the toughest decisions for a Labour Government would be whether to wean the economy away from its reliance on British coal.

Mr Gould suggests that it would – eventually: "No one is talking about closing large numbers of coal-fired stations overnight, but it's a question of adjusting the balance over a given period."

As MP for Dagenham, home of the large Ford assembly plant, Mr Gould is even more circumspect about embracing policies which might affect the private car.

He argues that strengthening public transport can go hand in hand with widespread car ownership: "We're not talking about the pattern of car ownership, but about the pattern of car usage."

Labour would give citizens rights to take to court organisations, including government bodies and companies, failing in their environmental duties.

Intervention of this kind is necessary to spread environmental concern throughout the population, Mr Gould argues: "Only we can say to our traditional supporters that concern for the environment is not some esoteric preoccupation of the well-heeled."

Increase in N Sea output reported

By David Thomas, Resources Editor

THE UK's North Sea oil output increased by 14 per cent to 1.881m barrels a day in the first half of 1990 compared with the same period of 1989, according to the latest report from James Capel's petroleum services department.

The report, published today, attributes the increase to the lack of big incidents such as the Brent pipeline shutdown that disrupted output last year.

James Capel forecasts that the overall oil output in 1990 from the UK sector of the North Sea will average 2m b/d. Nevertheless, compared with May, June's output fell by 62,000 b/d, equivalent to 3 per cent, to 1.829m b/d.

James Capel blames a decline in production from the Shell-operated Brent field, which was not fully offset by increased output from fields such as Occidental's Claymore Field.

Total output from all national sectors of the North Sea increased by 12 per cent to 3.677m b/d in the first half of 1990. James Capel is predicting an average output of 4m b/d for the whole year.

In addition to the UK, Norway accounted for the great bulk of this increase. Norway's output increased by 10 per cent to 1.617m b/d in the first half. James Capel is forecasting average Norwegian output of 1.7m b/d for the year.

UK NEWS

Thatcher shuffle will aim for election line-up

By Michael Cassell, Political Correspondent

DOWNING STREET is today expected to announce middle and lower-ranking ministerial changes intended to complete a government line-up which will lead the fight into the next general election.

With Mrs Margaret Thatcher anxious to avoid any further Cabinet changes after the recent upheavals, the traditional reshuffle will be aimed at securing a second tier of ministers whose promotional skills can help convey the Government's pre-election message.

The Prime Minister is particularly anxious to establish an impression of stability and permanency in her ministerial ranks, following the untimely departure of four Cabinet ministers since last October.

While subsequent changes, by design or accident, cannot be ruled out, Mrs Thatcher hopes to keep her new line-up in place until the election, which could come next autumn but which appears increasingly likely in the first part of 1992.

The promotion of Mr Peter Lilley to replace Mr Nicholas Ridley as Trade and Industry Secretary leaves open the post of Financial Secretary to the Treasury, for which Mr Richard Ryder, the Economic Secretary, and Mrs Gillian Shephard, the junior social security minister, have both been tipped.

Mr Nicholas Scott, the Minister for the Disabled, might lose his post.

Other changes are likely at the Department of the Environment, where Mr Christopher Chope, a junior minister, could step down.

Mr Colin Moynihan, the Sports Minister, may also be switched to another post.

There will also be a vacancy at the DTI, with the voluntary departure of Lord Trefgarne as a Minister of State.

Mr Michael Forsyth, the junior Scottish Office Minister, has been suggested as a likely replacement for Mr Peter Morrison at the Department of Energy.

There could also be changes at the Education Department, where Mrs Angela Rumbold's job as Schools Minister is said to be under threat, along with that of Mr Robert Jackson, the Higher Education Minister.

A number of new faces are likely to enter the Government's ranks for the first time.

Among those who might win junior ministerial posts are Mr Tim Yeo, the parliamentary private secretary to Mr Douglas Hurd, the Foreign Secretary; Mr Michael Fallon, a whip; Mr Steve Norris, the former parliamentary private secretary to Mr Ridley; and Mr Nigel Forman, the former parliamentary private secretary to Mr Nigel Lawson.

Tim Yeo: possible junior ministerial post

Steve Norris: could move up from Ridley posting

Angela Rumbold: could lose job as Schools Minister

How peace may imperil British defence contractors

Charles Leadbeater on the effect of cuts in the defence budget that may amount to £40bn over 10 years

THESE are anxious times for British defence contractors as they wait for the outcome of the Government's potentially far-reaching review of defence spending, Options for Change.

A general statement this week from Mr Tom King, the Defence Secretary, might lift some of the uncertainty for defence suppliers.

However, a detailed study of how the review will affect defence contractors, carried out by Mr Stephen Parker, an analyst at UBS Phillips & Drew, predicts that defence companies will not be affected equally because of the way the cuts will be distributed.

The study predicts a wave of terror in the stock market at the scale of the overall cuts. In the first year, the £22bn budget could be cut by £1bn. Thereafter, the cuts could rise to £5bn a year, producing a cut of more than 20 per cent in the Ministry of Defence's budget, with a planned reduction of more than £40bn within 10 years.

Defence companies will be most concerned about how the cuts are distributed between various elements of the defence budget. The Phillips & Drew study suggests several general rules of thumb.

● Administration could bear the brunt of the early cuts. Training spending could be cut by 24 per cent by 1992, to yield savings of about £330m. Administrative staff savings could yield another £100m.

● Spares, stocks and maintenance could also yield easy early savings. It would be easy to cut extensive war stocks by 70 per cent. The Air Force, for example, has no fewer than 282 planes in reserve. In the short term, the maintenance budget, including the Royal Dockyards, could be cut by £138m to £125m, throwing in doubt the future of one of the dockyards.

● In the medium run, combat forces will be affected as well. But land forces, especially in West Germany, will be cut more than air and sea forces. The UK spends £4.1bn on defence in West Germany.

● Much of these cuts will be focused on personnel rather than equipment. A 24 per cent cut in the overall defence budget might mean only a 15 per cent cut in the procurement budget of £8.4bn. Civilian pay accounts for 35 per cent of the budget. A one-year recruitment freeze would save £400m. A 40 per cent cut of 60,000 Army personnel, combined with a 25 per cent reduction in civilian manpower and smaller cuts in the Navy and Air Force, could yield almost £3bn.

● With eventual cuts of £5bn a year, land systems suppliers could be badly affected, with cuts of 66 per cent to £450m. Naval and air systems suppliers are unlikely to be as hard hit, with sales down 6 per cent and 9 per cent cent respectively.

● Cuts are more likely to affect old equipment, refurbishment and maintenance than new equipment.

So how could such cuts affect the main British defence contractors? A complicating factor will be how their non-defence interests and exports perform to offset flagging UK defence activity.

British Aerospace, the largest, may not be as vulnerable as expected because the brunt of the cuts are likely to fall on land systems, where the company's exposure is limited. It will suffer if the Trigat missile for the Army is abandoned. But it also has the underpinning of exports to Saudi Arabia. With cuts of £5bn a year, operating profits from ministry programmes would fall by a quarter to £90m. BAe's non-defence activities, such as the Rover car group, are low margin businesses, while its personal communications consortium will not generate cash for some time.

Only 11 per cent of the General Electric Company's operating profits come from the Ministry of Defence. Its Yarrow yard is likely to benefit from concentration in naval shipbuilding and the group will enjoy continued spending on electronic systems for air and sea forces. GEC should also earn higher margins in its power engineering joint venture with Alsthom of France.

GKN has only a limited exposure, partly through its stake in Westland, the helicopter manufacturer. But its sales of armoured vehicles could be halved by the mid-1990s. Smiths Industries will also be hit, but ministry programmes only yield about 13 per cent of overall operating profits.

The main losers could be a host of small companies producing basic stores and supplies, as well a clutch of larger companies. Vickers could be one of the most vulnerable, depending on whether it is chosen to make the replacement for the Chieftain tank later this year. Even if it wins the contract, sales will be trimmed back to about 200 from the projected 600. Mr Parker estimates supplies of spares account for about 9 per cent of Vickers' operating profits.

Rolls-Royce earns about 26 per cent of its operating profits from British defence projects, with 11 per cent coming from spares and other supplies. The troubled Tornado programme represents about 11 per cent of its operating profits.

The Dowty Group is also vulnerable. Refurbishment of old frigates, submarines and anti-submarine warfare projects could be scaled back. About 10 per cent of its operating profits are from spares, refurbishment and maintenance.

THE IMPACT OF DEFENCE CUTS

Company	Operating profits from MoD (£m)	MoD profits as % of total pre-tax	Profits at risk (£m) with annual cuts of: £1bn	£3bn	£5bn
BAe	120	36	20	25	30
GEC	95	11	5	10	20
Rolls Royce	60	26	20	25	30
Ferranti	10	–	1	2	3
GKN	20	8	8	10	15
Vickers	11	13	3	6	11
Westland	10	48	1	2	3
Dowty	22	27	3	5	8
Smiths	15	13	5	6	6

Source: UBS Phillips & Drew

Ashley Ashwood

Looking to the future: The outlook for small British defence suppliers and some large companies is uncertain

NEWS IN BRIEF

Heat could have caused train crash

THE heatwave may have played a part in a train derailment near Glasgow Central station on Saturday night in which 19 passengers were hurt, British Rail said yesterday.

The effect of heat on the track, possibly causing a rail to buckle, was one theory being examined by technical investigators from Derby.

The crash happened when the rear coach of the 7pm Glasgow to Ayr train left the track as it was passing over points less than 200 yards out of the station. The train was carrying 120 passengers including holidaymakers heading for the Ayrshire coast.

Sun-tan sales up

THE long, hot summers in recent years have led to a 50 per cent increase in sales of sun-tan lotions over the past five years, according to a report from the Euromonitor market research consultancy published today.

Euromonitor says that some £65m a year is spent on sun-tan products with consumers increasingly becoming concerned at the effects of over-exposure to the sun on their skin.

Education poll

MOST people approve of greater Government support for education, according to a survey of almost 1,000 adults published by the National Union of Teachers today.

The findings suggest that three-quarters thought spending on books and equipment was too low while 80 per cent believed it "unsatisfactory" that schools should be dependent on parental contributions.

Lunchtime drinkers

ONLY one in every hundred of UK workers regularly drink alcohol at lunch-time, with most preferring tea, coffee or soft drinks, according to a survey of 500 people by the Compass catering company.

Labour set to suspend 14 Liverpool councillors

By Ian Hamilton Fazey, Northern Correspondent

The national executive committee of the Labour Party is expected on Wednesday to suspend the Liverpool District Labour Party. The move would help 33 Labour moderates who are trying to run Liverpool City Council, which has a total of 67 Labour members.

The committee will be asked to suspend 14 Liverpool councillors for voting against the moderates when they tried to ease the city's financial problems with a £3-a-week rent rise for council tenants, the first since 1983.

It has already suspended a further 15 councillors for defying party policy by refusing to vote to set a poll tax. The moderates, led by Mr Harry Rimmer, former deputy leader of Merseyside County Council, gained control after the suspensions.

Party disciplinary proceedings are also expected to start against leading Labour figures in the Wirral who have been active in the campaign to deselect Mr Frank Field, the MP for Birkenhead.

The death on Friday of Mr Mike Carr, the 43-year-old MP for Bootle, was a further blow to the party on Merseyside. He was the third Merseyside MP to die in recent months. Mr Carr himself succeeded Mr Allan Roberts, who died of cancer at the age of 46. Mr Sean Hughes, the MP for Knowsley South, died last month, also from cancer, at 44.

Both by-elections are likely to be held at the same time during the autumn.

Problems for the party on Merseyside are being worsened by Liverpool's financial crisis, which can now be solved only with co-operation between the 33 Labour moderates and the Liberal Democrat councillors, the second largest party grouping on the council.

After solving its first few budget crises by borrowing from Japanese and Swiss banks – a device now closed off by the Government – the city has more recently taken to selling assets. Some of the land deals carried through by left-wingers are now being investigated by the police.

The latest assets coming up for sale are the freeholds of 16 famous Liverpool pubs, now leased to leading breweries. They include The Crown and The Vines in Lime Street, and Ye Crack and The Baltic Fleet, near the Albert Dock.

Pensioners have paid for tax cuts, Meacher says

By Michael Cassell

SAVINGS made by the Government by breaking the link between wages and pensions have paid for two thirds of the total cuts in income tax introduced during Mrs Margaret Thatcher's years as Prime Minister, the Labour Party said last night.

Mr Michael Meacher, the shadow Social Security spokesman, used the contents of a Commons written reply to claim that the Government had scored "a massive own goal."

Last week, a social security minister said that the resources saved by breaking the wages-pensions link, which Labour has said it would restore, were equivalent to 5p off the basic rate of income tax. If the link had been retained, a single pensioner would now receive £58.65 a week, an increase of £11.25 on the existing rate.

Mr Meacher said: "All the Tories' talk of improved economic performance paying for tax cuts is so much moonshine. Two thirds of their income tax cuts have been lifted out of the pockets of pensioners – the very people who have given most through tax and national insurance payments over their working lives."

Sales increase at John Lewis

By David Churchill

THE John Lewis department store chain achieved a 6.9 per cent sales increase in the week ending 14 July compared with the same week last year.

The increase was largely due to the start of the store's clearance sales.

Food sales through the Waitrose supermarkets, part of the John Lewis group, were up by 11.4 per cent in the same week compared with last year. For the total group, sales were 7.7 per cent higher.

Over the last 24 weeks, sales have been 5.5 per up. This was comfortably ahead of the company's budgeted sales increase of 4.1 per cent.

Labour fine-tunes plan for re-introducing rates

By Michael Cassell

LABOUR leaders will meet today to discuss the party's plans to introduce a modernised system of domestic rating if it wins the next general election.

Mr Kenneth Baker, the Conservative Party chairman, last night predicted Labour's proposal would lead to an "explosion of anger" among voters.

The economic committee of the shadow Cabinet will discuss the party's "fair rates" plan, the final details of which are unlikely to be ready in time for submission to Wednesday's meeting of the national executive committee. Instead the plan is likely to go to the autumn conference.

Mr Baker said that Labour's plans would represent "a return to the bad old days," with millions of home owners facing huge increases in rating bills.

His remarks were dismissed by Mr David Blunkett, Labour's local government spokesman, who said the plans offered the simplest and quickest way of abolishing the poll tax with minimum delay. The Labour leadership appears increasingly confident, after its recent struggle to devise an attractive poll tax alternative, that its proposals will prove popular with the electorate.

Labour's package proposes the scrapping of the poll tax and the introduction of a property-based tax, founded on pre-1989 valuations, in the first, full financial year after a general election victory. Immediate help would be given to people on benefit who now have to contribute a minimum 20 per cent towards poll tax bills.

Within the lifetime of a first Labour government, the party expects to have implemented its alternative system in full. It would embrace an extended rebate scheme and a new domestic property valuation, based on a combination of market and rental values and rebuilding, maintenance and repair costs.

The party says the new system would prove no more expensive than the old rating system and that the "overwhelming" majority would be better off than under poll tax.

Brisk trading at B&Q in spite of Sunday muddle

THE car park at the B&Q DIY store off London's North Circular was almost full by mid-morning yesterday, in spite of confusion surrounding the retail chain's right to trade on Sundays.

Four check-out assistants were working at a brisk pace and a store manager said that the usual number of Sunday customers had turned up.

"I've just been to church and then I got on the bus and came straight here. That's the truth," said one shopper, who asked not to be identified. "It's not against my conscience, as long as the people working here don't mind."

Shoppers seemed aware that Sunday trading had been the source of some legal confusion last week. Some knew that the issue had not been settled and thought, correctly, that the north London store would still be open. Others weren't certain, but thought they would come along to see whether it was trading.

Last Wednesday, Mr Justice Hoffman ruled in the High Court that the law banning Sunday trading was quite clear and that the 1950 Shops Act did not contravene the free trade principles of European Community law.

But within two days, Judge Peter Northcote, a Crown Court judge, allowed an appeal from the B&Q retail chain against a conviction and fine by Shrewsbury magistrates for trading on Sunday. He argued that the 1950 legislation could not be enforced because, in his opinion, it did contravene European legislation.

He added that "unless, and until the law has been made clear and enforceable a great deal of unnecessary and expensive litigation will undoubtedly continue."

Mr Northcote said that "the state of the law relating to retail sales on Sundays is unclear, seldom observed, out of date with present day mores, and can find little or no support from members of the public."

Unsurprisingly, a ban on Sunday trading found little support from B&Q shoppers. "I think it's great that it's open," said Ms Linda Saunders, carrying her purchases back to her car. "There's no traffic on the the roads. But I don't know if all the shops should be open on a Sunday. It would become just like a Saturday, just as crowded."

Judge Northcote: 'the state of the law . . . is out of date with present day mores'

Another shopper, Mr Clinton Quarshie, said that as a Seventh Day Adventist, Saturday was the day he didn't do his shopping. "But I'll go along with the majority. If most people want the shops open on a Sunday, that's OK with me. If they don't, that's OK too," he said.

The two legal decisions will add pressure on the Government to clarify the law regarding Sunday trading in England and Wales. And after Friday's court case, B&Q expressly appealed to the Government to do so.

"We feel that it is time for the Government to act. At B&Q we are in an amazing position. We are not breaking the law in some areas of the country but we are in others," an official said. "The Government should stop shirking its responsibility. They have to realise that the responsibility for sorting out this muddle is theirs."

B&Q opens around 170 stores on Sundays in England and Wales (Scotland has no restrictions) while 50 others remain shut because of injunctions brought by local authorities. Those shops that are open record about a quarter of their sales on Sundays.

B&Q's stance is not unique. In March several retailers banded together to form the pressure group OPEN to campaign for the reform of "chaotic, unfair and unworkable" trading laws. It points out, for example, that on Sundays shops are allowed to sell gin, cigarettes and tripe but not nappies, tampons or fresh meats.

Even the Keep Sunday Special Campaign has argued that the law should be updated and that the present list of exempt goods should be replaced by a list of exempt shops. But until the law is changed, it urges the Government to enforce the current law effectively.

Michael Skapinker and John Thornhill

UK NEWS

Defence contractors may face £142m cut in profits

By Charles Leadbeater, Industrial Editor.

BRITAIN'S top 12 defence contractors could see their operating profits cut by up to £142m a year in the next few years as a result of the cuts in defence spending expected to flow from Options for Change, the Government's potentially far-reaching review of defence priorities.

This is one of the main conclusions of one of the most detailed studies yet of the implications for defence contractors of cuts in British military spending in the wake of political reforms in eastern Europe.

The study, by UBS Phillips & Drew, the stockbrokers, estimates the UK's main defence contractors could see their annual operating profits on Ministry of Defence programmes of £408m, cut by between 18 per cent and 35 per cent in the next decade.

Mr Tom King, the Defence Secretary is expected to make a statement this week outlining plans for reductions in defence spending, after a meeting on Friday between Mrs Thatcher and the joint Chiefs of Staff. The statement is likely to further depress defence stocks which have fallen significantly in recent months.

The study, based on a painstaking assessment of detailed spending plans, suggests the MoD's £22bn budget is likely to cut by £1bn a year initially, possibly rising to £5bn later in the decade.

In the worst case for defence contractors, projected military spending of £220bn over the next decade could be cut by as much as a quarter. Cuts of £1bn a year would reduce the main contractors' operating profits by £72m a year, with a £5bn a year cut doubling the pressure of the profits squeeze.

The study predicts the cuts will not affect contractors equally. Companies such as Vickers, which are dependent on spending on land forces, could be particularly vulnerable.

Others such as Rolls Royce, the aero-engine manufacturer which the study estimates makes 26 per cent of its pre-tax profits from Ministry of Defence profits and Dowty, which make substantial profits from supplies of spares and refurbishment programmes could also be adversely affected. Rolls Royce last week announced plans for 700 job losses as a result of the Royal Air Force's cancellation of an order for Tornado jets.

Apart from Rolls Royce, British Aerospace and the General Electric Company, the top two contractors could have the largest absolute declines in profits. Both, however, have limited exposure to cuts in spending on the army.

Other contractors such as Lucas Industries, Smiths Industries, STC, Racal, GKN and Ferranti, will be less vulnerable, particularly as most have offsetting civil interests which could compensate for a reduction in defence profits in the next 10 years.

How peace may imperil British defence contractors, Page 5

Council pension funds invest £600m in Europe

By Eric Short

COUNCIL superannuation funds invested almost £600m – half their available new money of £1.19bn – in Continental European equities in the 12 months to March 31, 1990, according to the latest analysis from the WM Company, the largest investment performance measurement company in the UK.

A further £170m, nearly 15 per cent of new money, was invested by these funds in the emerging Far East stock markets. Overall, local authority pension funds invested over 70 per cent of their new money in overseas equities, despite strong disinvestment in Japan, with a further one-third being invested in overseas bonds.

Only 11 per cent of new money was invested in UK equities, while the funds disinvested heavily in UK gilts and other bonds.

This pattern achieved two significant results.

The overseas equity holdings of these funds achieved an overall return of 17.1 per cent over the 12 months, with European equities showing a return of 43.7 per cent.

This contrasted with a return of only 8.2 per cent over the same period from UK equities and a negative return of 4.1 per cent from UK bonds.

It enabled funds to achieve a total return on their assets for the 12 months of 8.6 per cent, just exceeding the rise in the retail prices index over the same period of 8.1 per cent, but failing to match the rise in national average earnings of 9.2 per cent.

Local authority funds still failed to match the average return of private sector pensions funds over the 12 months of 9.1 per cent.

Second, the pattern resulted in the asset mix of local authority pension funds showing overseas equities now accounting for 22 per cent of assets compared with 18 per cent at the beginning of the period, while the proportion of UK bond holdings, including index-linked gilts, fell from 11 per cent to 9 per cent.

Within the overseas equity portfolio, the proportion of European equities has increased from 27 per cent to 40 per cent of the portfolio.

Lawyers accused of economic illiteracy

By Robert Rice, Legal Correspondent

THE British legal profession is in a crisis because of its inadequate and narrow training and its ignorance of economics, according to the Institute of Economic Affairs (IEA).

"Lawyers and policy makers are economically illiterate and frequently innumerate," the IEA says in a study.

The IEA says the standing of the legal profession is lower than that of accountants and its ability to advise clients on the implication of laws for their business activities "borders on the naive."

It accuses the English legal profession of being wary of theory, contemptuous of experts and reluctant to accept that other disciplines may have something valuable to say about the law.

Many of Britain's accident victims, for example, are being under-compensated because judges refuse to use standard financial techniques to assess damages, the report says.

The English judiciary has discouraged expert evidence in personal injury cases, preferring "unsophisticated arithmetical calculation" which does not adequately compensate victims. If simple economics were used, damages would be many times higher than those currently awarded.

Regulation is one area that could benefit from economic analysis, the IEA says. Regulation has grown rapidly over recent years but has too often been guided by short-term considerations.

The political market-place generates regulation that is costly and wasteful. The result of this approach has been a shift in power in Britain into the hands of regulators such as the Office of Fair Trading and a host of self-regulatory agencies acting under a statutory framework. The report calls for the introduction of an intellectual framework drawn up by lawyers and economists to measure the costs of regulatory solutions on a consistent basis.

The Economics of Law, from the IEA, 2 Lord North St, London SW1, £6.95.

Visa to appeal against ruling by High Court

VISA International, the plastic card payments organisation, is to appeal against last month's refusal by Mr Justice Hodgson in the High Court for a judicial review of the report on the credit card industry published in August last year by the Monopolies and Mergers Commission (MMC), writes David Barchard.

The decision means that there may now be a further delay in implementing two decisions taken last December by Mr Nicholas Ridley, then Trade and Industry Secretary.

Those would allow retailers to charge their customers less if they pay by cash rather than by credit card and to end Visa's rule which prevents its member banks from signing up retailers for credit card services until they have issued a large number of cards.

Both changes were recommended by the MMC report, though Mr Ridley did not necessarily have to adopt them.

Visa is understood to have taken the decision to appeal against the high court ruling after consulting member banks in Europe. They are alarmed that the Department of Trade and Industry's proposals could set a precedent for credit card legislation in other national markets.

Visa will press for an expedited hearing of its appeal, so that a ruling can be obtained by the end of the year. The company claims that it is merely a supplier of services to banks and that because of this, the MMC report was in error when it claimed Visa was operating a monopoly.

One factor behind Visa International's decision to appeal may have been Mr Ridley's recent departure from the DTI. Many banks believe that Mr Ridley was too ready to listen to the large retailers in their disputes with the banks over credit card pricing and did not fully understand the competitive issues involved in the plastic card industry.

Executive pay packages on course for 13% increase

By Michael Dixon

MANAGERS in Britain are on course for a 13 per cent rise in total pay this year, according to a survey by the Noble Lowndes group of management consultants and actuaries.

The group's executive pay index, which sets a pounds-per-year value on fringe benefits and takes account of salaries and cash bonuses, shows a 6.5 per cent increase over the first half of 1990. The index, calculated quarterly for the Financial Times, is "smoothed" to compensate for the bunching of annual salary awards at particular times of the year.

The underlying rate of increase slowed slightly in the April-June quarter. The average for the 3,775 managers of all ranks covered by the survey rose three per cent to £64,897, compared with a 3.5 per cent increase in January-March.

Chief executives continued to widen their pay differential over lower ranks of managers including other directors. Chief executives are in line for a 1990 increase of almost 14 per cent.

Further information on the survey, including the methods used to calculate the value of fringe benefits, is available from Mr Don McClune, PO Box 144, Norfolk House, Wellesley Rd, Croydon CR9 3EB.

● Former state-owned organisations typically reacted to privatisation by awarding large increases in earnings to their best-paid directors, says the Incomes Data Services consultancy in a report published today.

An IDS study of 15 privatised concerns shows that their best-paid directors' cash earnings rose by an average of 62.1 per cent in the first year after public flotation. In four of them – Enterprise Oil, British Airways, BAA and Jaguar – the initial year's increase was over 100 per cent.

The main reason the privatised companies give for the rises is that they were needed to bring their directors' pay up to private-sector standards.

At the time of flotation, the 15 state-owned concerns' highest-paid directors had average money earnings of £69,576, or 34 per cent lower than the comparative private-sector figure of £105,521. In 1989, the privatised companies' average was £261,087 – 5 per cent higher than the comparative private-sector figure of £247,546.

Not all of the ex-state organisations' top-paid executives have done well out of privatisation. In 1989 the NFC haulage company's best-rewarded director received only 66.3 per cent of the relevant private-sector average.

Top Pay Review – July. IDS, 193 St John St, London EC1V 4LS.

MANAGEMENT

Indian industry

A colossus poised to flex its muscles

The Tatas is set to reassert its leadership as India's largest group, but it lacks cohesion, suggest **David Housego** and **Gita Piramal**

Among the larger Indian industrial groups, the Tatas has long seemed like a slow-moving colossus. In the 1970s, the Tatas barely managed to increase sales and investments – held back by the restrictions of the Monopolies and Restrictive Trade Practices Act (MRPT) that was intended to break the economic power of the large industrial houses.

Freddie Mehta, a Tata director and chairman of the Forbes engineering group within the Tata empire, says: "In the 1970s every single application by the Tatas (for an industrial licence) went into the wastepaper basket."

In the more liberal environment of the 1980s, the Tatas began to pick up speed; but what seemed to many to be their old-fashioned concern for business ethics meant that they were still in danger of being overhauled by other more aggressive rivals like the Ambanis or the Chhabrias.

At the beginning of the 1990s, however, they seem poised for a major expansion – in part helped by a reputation for integrity and fair dealing that stands them in good stead with the financial markets, with state governments looking for private sector partners, and with customers and foreign collaborators.

In India "the 1990s is the decade of the Tatas," says Gerry Rao, vice-president and chief executive of Citibank India, who confesses that he had wrongly thought the Tatas "sleepy and stodgy" by comparison with more pushy rivals.

Among their strengths as they prepare for a decade of reasserting their leadership as India's largest group are:

- A massive investment programme. Tata Steel, the steel-making subsidiary and India's largest single private sector company, is investing Rs 30bn over the next four years for modernisation and expansion. Tata Steel raised Rs 6.5bn of this last year in a convertible debenture before the change of government and a subsequent dramatic slowdown in new issues.

Telco, the commercial vehicle subsidiary, is spending Rs 8.3bn over the next three to four years to modernise and diversify. Tata Chemicals, together with Tata Tea, are investing Rs 50bn in fertilisers, a new petrochemical complex to be built at Haldia in West Bengal in partnership with the state's Marxist government, and an oil refinery. Tata Electric is investing Rs 5bn in new thermal capacity near Bombay. Other companies within the group, which currently has total sales of Rs 90bn, are also ambitious.

- The Tata reputation provides the group with unmatched access to the capital markets. "We will not really have any major problem in raising funds for these large projects from the capital markets," says Noshir Soonawala, chief financial adviser. Equally, as Tata Chemicals' link-up with the Marxist West Bengal government has shown, state governments increasingly see the Tatas as one of the most desirable partners for the growing number of joint sector projects.
- In a more competitive environment Tata has the advantage of being the market leader in many of the fields it is in. Tata Tea is the world's largest tea company. Telco holds 70 per cent of the Indian market for commercial vehicles. Associated Cement Companies (ACC) is India's largest cement producer.
- Tatas have a large pool of skilled managers used to working in sophisticated industries from engineering to chemicals and electronics.

Against these advantages, the Tatas' major weakness is that it has no cohesion as a group and members of its senior hierarchy are at odds with one another over what the future structure should be. The Tatas is currently a loose confederation of companies with the chief executives of the major concerns treating their domain as fuedal fiefdoms.

Ratan Tata, who has just taken over as deputy chairman of Tata Sons, the main holding company and who is shortly expected to succeed the 86-year-old JRD Tata as head of the group, wants to bring in the tighter control that would be accepted practice for any multinational of the Tatas' size. The ideal way, he says – though he recognises it would be unrealistic – would be "to re-found and restructure Tatas into groups of industries, or to restructure it into one large entity which has many divisions."

But most Tata chief executives are strongly opposed to this type of approach and want to preserve the autonomy of the individual companies. Darbari Seth, the head of Tata Chemicals and the most powerful exponent of this view, denies there can be more cohesion. "In law and in theory, all Tata companies are autonomous and thus constitute a Commonwealth of nations."

Ratan Tata, who almost alone among the top hierarchy thinks about group strategy and has commissioned an in-house study on the options available during the coming decade, says he is prepared for a "battle". On his side is the fact that he is part of the Tata family and his comparative youth – 52. In a company notorious for the reluctance of its senior managers to retire, 16 of the 20 most senior Tata executives are over 60.

Many observers, however, do not think that Ratan Tata is sufficiently tough to impose his will. "Ratan Tata has no followers," says one local investment banker. "When JRD Tata goes, the group will fall apart." Though a widely held view in Bombay, this is probably too pessimistic.

The Tata empire, now comprising 47 groups (many with their own cluster of subsidiaries) used to be centrally controlled when it was run in the manner of the managing agency system that India inherited from the British. But Prime Minister Indira Gandhi's government got rid of the system in the early 1970s as part of her populist campaign against the large industrial houses.

Since then, the major companies have increasingly asserted their autonomy. This process was furthered by what Ratan Tata considers a mistake of his uncle JRD, in not appointing the same chairman to the head of each company as a way of maintaining the group's cohesiveness. JRD was himself chairman of all the companies in the group – but as he retired from each, the operating chief also became chairman.

Of the major power brokers within the Tata empire, Russi Mody, 72, the head of Tata Steel, once hinted that he would retire this year. His strength has come from rising profits generated on the back of price de-control and from operating his plants at close to full capacity. Already a far more efficient producer of steel than India's state owned plants, Tata Steel stands to gain substantially from its massive new modernisation and expansion programme. The group has also diversified into computer software, non-steel exports and shrimps.

Clockwise top left: Freddie Mehta; Ratan Tata; J R D Tata, who heads the group; Noshir Soonawala; Darbari Seth. Differing views on extent of autonomy for group companies

Darbari Seth, 70, has created his own mini-empire within the Tata group, confessing that he comes from "a feudal background" and that his style is paternal. His appetite for growth has increased with age. He has acquired Consolidated Coffee, India's largest coffee plantation for Tata Tea, and taken over the running of the cement company, ACC, one of the top five Tata companies.

Over the past year he has announced Rs 50bn of investment in greenfield plants including the Haldia petrochemical complex.

Ratan Tata himself took over as chief executive of Telco in December 1988. He has already shifted its emphasis away from heavy and medium commercial trucks to lighter vehicles, a station wagon and, soon, passenger cars. He would like to carry Telco into aerospace and defence.

Ajit Kerkar, 58, often thought of as the black sheep of the group for his unconventional business methods, is none the less much respected for his drive in building up a Tata presence outside India through the Taj hotel and catering group.

These four baronies are the main power centres of the group with the authority that size, large cash resources and ambition provide. But the Tatas are also into textiles, vegetable oils, watches, electronics, lipsticks, financial services and a host of other things.

Formal links between the different outposts in what Ratan Tata calls this "very loose confederation" of companies are maintained through stakes held in them by Tata Sons, the main holding company, or Tata Industries, another major holding, or various Tata trusts.

Ratan Tata says that there there is a lot of inter-action "when companies want money from each other and zero when they think they can do something on their own."

Shortly after Ratan Tata first rose to prominence he drew up a strategic plan in 1983 on where the group should be headed during the rest of the decade. This argued that the Tatas was too entrenched in traditional, slow growing sectors and that the group should diversify into what were then called the "sunrise" industries – electronics, communications, advanced materials. He also advocated that the group get out of certain areas like textiles and vegetable oils.

At the time, however, Ratan Tata had little power to impose his views and the Tata barons were jealous of their territory. But through Tata Industries, Ratan Tata did move the group into oil drilling (Hi-tech Drilling), computer software (Tata Consultancy and Tata Honeywell, Tata Unysis) and telecommunications (Tata Telecom). Though he established a foothold in these areas,the companies have yet to prove themselves financially, which leaves Ratan Tata's managerial capabilities yet to be fully tested.

None the less seven years later, he is more outspoken and more confident. In his aim of achieving tighter control, he wants to reduce wasteful competition between group subsidiaries – the Tatas has four pharmaceutical concerns jostling for similar markets – and encourage the development of synergies between different companies. He believes the mechanism of informal contacts fails when hard decisions have to be taken.

He wants to see a more active policy of acquisitions, mergers and disposals. He would like senior executives to retire earlier. Age, he says, "affects vision, limits the ability to take hard decisions, and reduces the opportunities for young people." He would like to see much more mobility of personnel through the group. "Why should a person live all his life in Telco?" he asks.

Ratan Tata believes that more cohesive management should be reinforced by more cross-holdings between the different companies and by group headquarters providing tighter guidelines on profitability, fund-raising and product strategy. But the cornerstone to his vision is that to achieve more unity and cohesion the group should revert to the former tradition under which the chairman of Tata Sons was also the chairman of the major operating companies. Deputy chairman now, Ratan Tata will be the next to slip into the chairman's seat.

The new review of the group's strategic options is not yet complete. But three or four areas are clearly emerging as centres of future focus. Ratan Tata believes that the group must build on its newly developed interests in telecommunications and electronics, and on its existing strengths as a sophisticated engineering group, to go into areas like aerospace, defence and possibly public switching systems in telecommunications.

A second area where the group sees immense potential because of the Tata reputation with investors is financial services. Freddie Mehta says Tatas were stunned by the public response to a recent fund-raising exercise on behalf of Tata Industrial Finance. "The faith the public put in us was phenomenal," he says. Tatas would like to go into mutual funds – if the government opens this up to the private sector – and consumer financing.

A third area in which the group hopes to expand is agriculture which it sees undergoing a massive transformation with the explosion taking place in farmers' incomes and the growth of a more aggressive farmers' lobby. The group also sees a place for itself in biotechnology, refrigerated trucks and industrial techniques for agriculture.

Finally, Ratan Tata believes that the group must develop exports as a major plank of its strategy rather than as an offshoot of domestic sales. But influenced perhaps by a recent setback to his plans for Telco to tie up with Daimler-Benz to produce trucks for the world market, he believes it is still too early for Tata to seek alliances with other multinationals – and thus to develop as a global player.

Some of his colleagues hold more ambitious ideas on this. Freddie Mehta, a believer in the Tatas playing a global role, says: "Never before has India been so well placed in world conditions."

Resistance to Ratan Tata will be the greatest over his plans to impose tighter control on the management structure of the group. Darbari Seth says with honeyed tongue: "If one person in Tatas can hold the group together it is Ratan Tata. His great quality is that he embodies the background that is Tatas in terms of values and traditions." But it is clear that he does not believe that Ratan Tata should have much of an executive role. "Let him be group chairman," he says, adding that he should not remain too long as chief executive of Telco.

Ratan Tata's problem will be to prove that he is a chairman with teeth.

Major companies in the Tata Group*

Company	Sales (Rs bn)	Gross profit (Rs bn)
Tata Steel	20.13	2.95
Telco	19.69	19.7
Tata Electric Cos	7.59	0.67
Voltas	6.67	0.25
Tata Chemicals	3.09	0.76
Indian Hotels	1.18	0.20
Gokak Patel Kokart	1.04	0.15

*Figures relate to year ending March 31,1990, except in the case of Tata Electric and Indian Hotels which have not yet announced their results and figures for which relate to 1988-89

LEGAL NOTICES

ROCKWOOD DISTRIBUTION SERVICES LIMITED

Registered number: 2109266
Nature of business: Road Transport and Warehousing
Trade classification: 28
Date of appointment of joint administrative receivers: 6 July 1990
Name of person appointing the joint administrative receivers: Lloyds Bank plc
JOHN FREDERICK POWELL and MICHAEL ANTHONY JORDAN
Joint Administrative Receivers
(Office holder nos 249 and 159) of Cork Gully
43 Temple Row
Birmingham
B2 5JT

R H Kitchen Limited

Registered number: 886213
Nature of business: R H Kitchen Limited
Trade classification: Road Transport (28)
Name and address of joint administrative receivers:
David John Stokes and
Michael Joseph Moore
Cork Gully
1 East Parade
Sheffield S1 2ET
Office holder numbers. 2682 and 5584
Date of appointment: 13 July 1990
Name of appointer: Royal Bank of Scotland Plc

ROCKWOOD TRAVEL LIMITED

Registered number: 1606085
Trading name(s).- Mercury Travel Services
Nature of business: Travel Agents
Trade classification: 31
Date of appointment of joint administrative receivers: 6 July 1990
Name of person appointing the joint administrative receivers: Lloyds Bank plc
JOHN FREDERICK POWELL and MICHAEL ANTHONY JORDAN
Joint Administrative Receivers
(Office holder nos 249 and 159) of Cork Gully
43 Temple Row
Birmingham
B2 5JT

ROCKWOOD INTERNATIONAL FREIGHT LIMITED

Registered number: 2283168
Trading name(s)·- Walford Meadows, Mercury Airfrieght International
Nature of business: Air Transport
Trade classification. 29
Date of appointment of joint administrative receivers: 6 July 1990
Name of person appointing the joint administrative receivers: Lloyds Bank plc
JOHN FREDERICK POWELL and MICHAEL ANTHONY JORDAN
Joint Administrative Receivers
(Office holder nos 249 and 159) of Cork Gully
43 Temple Row
Birmingham
B2 5JT

B V S INTERNATIONAL LIMITED

Registered number: 1195858
Nature of business: Transport
Trade classification: 32
Date of appointment of joint administrative receivers 6 July 1990
Name of person appointing the joint administrative receivers: Lloyds Bank plc
JOHN FREDERICK POWELL and MICHAEL ANTHONY JORDAN
Joint Administrative Receivers
(Office holder nos 249 and 159) of Cork Gully
43 Temple Row
Birmingham
B2 5JT

ROCKWOOD HOLDINGS PLC

Registered number: 1583384
Nature of business: Road Distribution and Warehousing
Trade classification: 28
Date of appointment of joint administrative receivers: 5 July 1990
Name of person appointing the joint administrative receivers: Lloyds Bank plc
JOHN FREDERICK POWELL and MICHAEL ANTHONY JORDAN
Joint Administrative Receivers
(Office holder nos 249 and 159) of Cork Gully
43 Temple Row
Birmingham
B2 5JT

CONSTRUCTION CONTRACTS

Shrewsbury by-pass plan

Cheshire-based **ALFRED McALPINE CONSTRUCTION MAJOR PROJECTS** has been awarded a £38.59m contract by the Department of Transport to undertake Contract 2 of the A5/A49 Shrewsbury by-pass project in Shropshire.

The Contract 2 scheme, which is expected to take two years to complete, will provide a north-south by-pass of Shrewsbury from Emstrey, south east of Shrewsbury, to the M54 motorway at Chuddley (12.2km of dual two-lane carriageway), and the A49 link, running from the new roundabout at Preston northwards to join the A49/A53 at Battlefield (5.1km of single carriageway).

The new trunk road crosses the River Severn at three locations and also crosses the River Tern and existing A5. The A49 link passes under the Didcot to Chester railway line, where the underline bridge is to be built for British Rail under a separate contract.

The project entails construction of 16 major structures, including a prestressed concrete bridge and two composite steel bridges over the River Severn. It is estimated that the volume of earthworks along the entire length of Contract 2 will be of the order of 1.25m cu metres.

The Shrewsbury by-pass scheme has been designed by consulting engineer, Sir Owen Williams & Partners, under the direction of the Department of Transport's West Midlands construction programme unit in Birmingham.

Piccadilly Circus project

DIESPEKER CONCRETE COMPANY has been awarded two contracts worth over £3.5m for in situ concrete work on the Criterion development on the south side of Piccadilly Circus in London NW1 and at the new Westminster and Chelsea Hospital in London SW10.

At the Criterion, Diespeker's work for Wimpey Construction Management requires the construction of a 10-storey reinforced concrete frame, including a four-level basement and prestressed post-tensioned floors above first floor level to provide about 24,000 sq metres of floor area.

At the Westminster and Chelsea Hospital Laing Management Contracting has placed a contract for the placing of reinforced concrete for the first to fifth floors of the building. Diespeker will be placing over 3,000 cu metres of concrete and 71,000 sq metres of reinforcement mesh.

Improving London orbital road

CEMENTATION (MAJOR PROJECTS), a Trafalgar House company, has been awarded an £8.3m contract by the Department of Transport for improvement works on the M25/A282, north of the Dartford Tunnel.

The work includes the upgrading and widening of 800 metres of the existing A282 to dual four-lanes and includes the construction of a reinforced earth wall and erection of 11 sign gantries together with associated lighting and communications.

This work is associated with the new four-lane, high level road bridge under construction by the Cementation Cleveland Dartford Consortium for the operator, Dartford River Crossing, which is due to open to traffic in 1991. With a main span of 450 metres the bridge is believed to have the longest cable-stay structure in Europe.

Construction started on July 9 and the project is scheduled for completion in 62 weeks.

Refurbishing headquarters in Nigeria

COSTAIN WEST AFRICA and **JALAL COSTAIN**, Bahrain, have been awarded contracts totalling more than £25m.

Costain (West Africa), in association with Costain International, have been awarded an £18m (250m Naira) contract by Nigerian Telecommunications for the refurbishment of its headquarters, Necom House, in Lagos.

Necom House, a 36-storey office building, was extensively damaged by fire some years ago. The contract includes repair and refurbishment work and is due to be completed towards the end of 1992.

Gulf Air has awarded a £7.2m contract to Jalal Costain for the construction of its four-storey headquarters building.

The reinforced concrete building with piled foundations will be designed as four wings connecting to a central core.

The headquarters will be built adjacent to the international airport and will have a gross floor area of 24,000 sq metres. Work is due to be completed in 1992.

Developing Toyota complex

TARMAC TOPMIX, the ready-mixed concrete company, has won a contract, worth about £4m, to supply all the concrete for the building of Toyota's complex at Burnaston, near Derby.

Two mobile concrete plants have been erected on site to provide the 100,000 cu metres needed for the project.

Work on supplying concrete started recently and the contract period is 69 weeks.

In total the contract will require about 220,000 tonnes of aggregate and at peak the two computerised on-site mobile plants will produce about 14,000 cu metres of concrete a month.

Gloucester Park development scheme

TAYMECH - an environmental engineer - has been awarded a £16m contract by C.P. Holdsworth of Sir Robert McAlpine Management Contractors for the installation of building services at a development in London's West End.

The Gloucester Park development comprises about 2.84 acres and when completed will include a 12-storey apartment building, an office building and a retail shopping arcade.

The Gloucester Park development is bounded by Gloucester Road, Cromwell Road, Ashburn Place and Courtfield Road and includes the air space above Gloucester Road Underground station.

The single-storey shopping arcade is constructed on a steel and concrete raft over the station. This raft is supported entirely independently of the existing station structures using mass concrete foundations outside the station retaining walls, with intermediate support from columns inserted through the island platform. Completion of the Gloucester Park development is scheduled for December 1991.

Sainsbury store for Barnstaple estate

E. THOMAS has become construction manager for two major projects in Devon worth £13.5m for Sainsbury. The largest, worth £10m, is for a store on the Roundswell Estate, Barnstaple. It will comprise 32,000 sq ft of retail sales space, a bakery, coffee shop and parking for 640 cars. The development will also include a petrol station, 8,500 sq ft of retail shops, a 7,000 sq ft health and community centre and a childrens' play area.

The second, worth £3.5m, is to extend and refurbish Sainsbury's Exbridge store in the heart of Exeter. The sales area will be increased by some 20 per cent to 28,000 sq ft.

LEGAL COLUMN

Defending media-orchestrated claims for compensation

By David McIntosh

WHEN newsworthy litigation of any type threatens, the parties involved can only be effectively represented by experienced lawyers capable of managing or responding to the media.

David Frost's television trial and virtual conviction of Dr Emil Savundra in the context of the collapse of the Fire Auto & Marine Insurance Co in the 1960s was novel in its effect, but can now be looked on as just an early example of the now commonplace media inquest which follows financial collapses, such as Barlow Clowes.

This also applies, but with heightened emotional effect, whenever accidents or pharmaceuticals cause multiple injuries or loss of life. Media interest has to my knowledge influenced the conduct of court proceedings and settlement attitudes and the media has sometimes been harnessed and even manipulated by pro-claimant lawyers and spokesmen.

Those who campaign on behalf of victims, whether they have suffered physically or financially, have the advantage of public opinion and sentiment on their side.

A lack of subjectivity by the victims and bereaved in apportioning individual blame before the full facts are known is understandable.

It is not, however, excusable when plaintiffs' lawyers "go over the top" in expressing views as to the culpability of defendants and individuals before they have enough information to do so.

Similar criticism can also apply to senior management within some defendant companies who are far too quick to blame individuals as an excuse for management failures.

When lawyers overstate their client's case they run a number of risks. They create expectations which can lead to disappointment and personal criticism of them later; undermine their own reputation; appear to be publicity seekers; and they demean their own profession.

Now that the press regularly knocks on lawyers' doors, these champions of the defrauded and injured need to give very careful thought as to what, if anything, they are prepared to say before they succumb to the temptation of speaking out.

When court proceedings begin they also need to be more wary than some have been of the risks of placing themselves and their clients in contempt of court or in breach of confidentiality and *sub judice* obligations.

Journalists cannot be faulted for publishing what appear to be authoritative statements from plaintiffs' representatives. After all, the public want to know everything the day after any disaster and, in particular, who is to blame, who should be punished and what lessons should be learnt for the future.

It is a simple matter for claimants' lawyers to stimulate continued public interest by releasing pro-claimant information and statements designed to force the defendants "to do the right thing," by admitting liability and paying compensation at levels which they prescribe as appropriate.

In this approach they sometimes seek to deny defendants their basic right of attempting to clear their names by successfully defending themselves on legal grounds.

Defendants can nevertheless influence media campaigning by appointing authoritative spokesmen at the most senior level possible and by properly briefing them and mandating them to put their own and their company's best foot forward without having to seek detailed approval from superiors or colleagues at every stage.

In this the guidance of lawyers regularly involved for defendants in high profile cases is often essential. They must ensure that whatever is done or said validates and dovetails with the legal defence and strategies and is unlikely to prejudice the defendant in the eyes of the court then or later on.

The consequence of making temptingly helpful statements early on which are later contradicted by a defendant's own pleadings and utterances will backfire in no uncertain way and undermine all future credibility.

It is nevertheless rarely wise for defence lawyers to encourage a "no comment" response to press inquiries.

Such a response can easily be used against the defendant and almost always ensures a one-sided, pro-plaintiff piece will be broadcast or published.

There is nearly always something positive which can be said in a way which will tempt the press to publish it and this is so even on behalf of defendants whose position on liability is precarious.

If, however, there is no runnable defence then, it is wise for the defendants' lawyers to advise in favour of an early admission of liability and an offer to pay reasonable levels of damages. Attempts to defend the indefensible extend the damaging crisis period.

When over-optimistic statements as to the indefensibility of a defendant's position is given prominence, it is sometimes only possible to minimise the damage it can cause by way of a public response by the defendant's own independent lawyers.

Unfortunately, there are too few defendants' lawyers willing or able to respond to the aggressive plaintiffs' lawyers of this new litigation world.

The new breed of regular plaintiffs' solicitors who appear in big disaster cases of all kinds always seem to have a mandate to speak out as they think proper in the interests of their clients and, in doing so, are instantly available, media-friendly and nearly always skilled in providing good copy.

Those of us who regularly defend in these cases have to advise and report to our client's corporate management (which is not always dynamic in its response) and also, in most cases, to the defendant's liability insurers.

Furthermore, unless we happen to be a senior partner in our law firm, there may well be internal lines to clear before press statements potentially helpful to our clients can be made. By then, the press deadline may have passed and the opportunity lost.

It is, however, worth noting that Mr Rodger Pannone, one of the most celebrated of this new breed of plaintiffs' champions has publicly accepted on a number of occasions that a timely intervention in the media by the defendant's representative can neutralise, and has on occasions neutralised, the defendants' attack.

On rare occasions it is even possible for the plaintiffs and defendants to make common cause where, for example, a third part or agency is clearly the cause of the disaster in question.

It is, therefore, vital to potential defendants that a media policy be agreed in advance as part of disaster contingency planning.

If not then the claimants and their representatives will always win the media case and, in some instances, render pyrrhic a successful court victory a few years later.

It must, however, be remembered that journalists sometimes display hostility towards defendants and their advisers. They may be reluctant to publish anything which detracts from the pro-claimant message.

If, therefore, a defendant's representative is to succeed in having his clients' "unwelcome" message published, it is essential to couch it in newsworthy terms and not to mask it in legalese.

Furthermore, a hostile journalist is more likely to be accommodating if a polite and helpful relationship has been established.

As someone who has had more than his fair share of dealings with the press in matters of this type, on no occasion have I been quoted inaccurately in any important respect nor has any journalist published an utterance of mine where we have agreed in advance it should be non-attributable.

Great care must, however, be taken when providing journalists with interviews, but if you play it straight with them then, in my experience, they reciprocate.

Because there are real risks of being misquoted or quoted out of context, I believe lawyers should only ever talk to the press on matters on which they are well briefed and prepared and, when on behalf of a client, only with their permission.

Of one thing I am, however, sure – whether the legal profession likes it or not, more of us than at present, are going to have to become media-friendly, if we are to serve our clients properly.

The author is senior partner of the City solicitors Davies Arnold & Cooper.

DIARY DATES

FINANCIAL

TODAY

COMPANY MEETINGS-
Alexon, The RAC Club, Pall Mall, S.W., 1.00
Amber Industrial Hldgs., Cayzer House, 1 Thomas More Street, E., 12.30
Avesco, Venture House, Davis Road, Chessington, Surrey, 11.00
Chloride, 103 New Oxford Street, W., 11.30
Erskine House, The Savoy Hotel, The Strand, W.C., 12.00
Fleming High Income Inv. Tst., The Chartered Accountants' Hall, Moorgate Place, E.C., 12.00
Hicking Pentecost, 25 Copthall Avenue, E.C., 12.00
Investment Company, Fairfax House, Fulwood Place, Gray's Inn, W.C., 12.00
Nu-Swift, The Grosvenor House Hotel, Park Lane, W., 12.00
Rowlinson Securities, London House, London Road South, Poynton, Stockport, Cheshire, 12.00
Tie Rack, Novotel London, Hammersmith Intl. Centre, W., 10.30

BOARD MEETINGS-
Finals:
Black Arrow
Dalepak Foods
Menvier Swain
Interims:
Berkeley Govett
Bullough
Rights & Issues Inv. Tst.
Temple Bar Inv. Tst.

DIVIDEND AND INTEREST PAYMENTS-
Acatos & Hutcheson 1.75p
British Inv. Tst.
Ferguson Indl. Hldgs. 3.25p
Osborne & Little 3.8p
State Elec. Comm. of Victoria 9½% Gtd. Nts. 1992 4.75pc.
Tate & Lyle 3.2p
Texas Instruments 18cts.
Tunstall 2p

TOMORROW

COMPANY MEETINGS-
Channel Express, 36 St. Andrews Hill, E.C., 11.00
City of London PR, The Honourable Artillery Co., Armoury House, City Road, E.C., 11.30
Cohen (A.), Clareville House, 25-27 Oxendon Street, S.W., 12.00
Erostin, Coach House Hotel, London Road, Moulsoe, Newport Pagnell, Buckinghamshire, 11.00
Globe Inv. Tst., Globe House, 4 Temple Place, W.C., 12.00
Rothschild (J.), The Royal Automobile Club, 89 Pall Mall, S.W., 12.00
Whitbread, The Brewery, Chiswell Street, E.C., 12.00

BOARD MEETINGS-
Finals:
Aitken Hume
CESC
Dudley Jenkins
Eve
Fleming Enterprise Inv. Tst.
Murray Smaller Markets Inv. Tst.
Wood (John D.)
Interims:
Bensons Crisps
Hotspur Inv.
Radius

DIVIDEND AND INTEREST PAYMENTS-
Bristol & West Bldg. Soc. Fltg. Rate Nts. 1992 £191.88
Britannia Bldg. Soc. Fltg. Rate Nts. 1996 £382.70
Linton Park 9.5p
Lloyds Bank Sers. A Var. Rate Sub. Nts. 1998 £383.95
London & Clydeside Hldgs. 1.8p
Trans World Comms. 8p

WEDNESDAY JULY 25

COMPANY MEETINGS-
Anglo, 41 Tower Hill, E.C., 10.30
Anglo United, Sheffield Moat House, Chesterfield Road, Sheffield, 12.00
Caffyns, Hydro Hotel, Mount Road, Eastbourne, 3.00
Caledonia Invs., Cayzer House, 1 Thomas More Street, E., 3.00
Cape, The London Marriott, Duke Street, W., 12.00
Channel Tunnel Invs., Chartered Accountants' Hall, Moorgate Place, E.C., 11.00
Continuous Stationery, The Hampshire Hotel, Leicester Square, W.C., 10.00
De La Rue, Le Meridien Hotel, Piccadilly, W., 11.30
Regalian Props., The Britannia Hotel, Grosvenor Square, W., 10.30
600 Group, The Runnymede Hotel, Egham, 11.30
Staveley Inds., The Intercontinental Hotel, 1 Hamilton Place, W., 12.00

BOARD MEETINGS
Finals:
Beta Global Emerging Markets
Budgens
Goode Durrant
LGW
Mieys
Northamber
Savills
Interims:
Aegis
Greenwich Resources
LGW
LASMO
SEP Indl.

DIVIDEND AND INTEREST PAYMENTS-
Atkins Bros. (Hosiery) 8.4p
Bank of Montreal Fltg. Rate Debs. Sers. 10 1998 $426.73
Bankers Tst. New York 58.25cts.
Bass 9p
CPC Intl. 50cts.
Caffyns 5.5p
Debenhams 7¼% Uns. Ln. 2002/07 3.625pc.
Do. 7¾% Uns. Ln. 2002/07 3.875pc.
Fairline Boats 7.15p
General Electric 47cts.
Manufacturers Hanover 86cts.
Molex Inc. 1cts.
Panama (Rep. of) Fltg. Rate Sers Nts. 1991 $109.35
Rothschild (J.) Hldgs. 5p
State Bank of Victoria Gtd. Fltg. Rate Nts. 1998 $417.93
TSB Gilt Fd. Ptg. Red. Prf. B 0.9167p
Treasury 12% 1995 6pc.
Do. 13¾% 2000/03 6.875pc.

THURSDAY JULY 26

COMPANY MEETINGS-
Babcock Intl., The Insurance Hall, 20 Aldermanbury, E.C., 11.00
Bimec Inds., Founders Hall, 1 Cloth Fair, Smithfield, E.C., 12.00
Boots, The Grosvenor House Hotel, Park Lane, W., 11.00
British Telecomm, The Royal Centre, Nottingham, 2.00
BSS, Grand Hotel, Leicester, 12.00
Darby, Royal Hotel, Doncaster Road, Scunthorpe, South Humberside, 2.30
Hardy Oil & Gas, Plaisterers Hall, 1 London Wall, E.C., 11.00
Locker (Thomas), The Lord Daresbury Hotel, Daresbury, Warrington, 12.00
Melville Street Invs., Dunedin House, 25 Ravelston Terrace, Edinburgh, 12.00
Penny & Giles Intl., The Pewterers Hall, Oat Lane, E.C., 12.00
Renold, Hotel Piccadilly, Piccadilly Plaza, Manchester, 2.30
Rolfe & Nolan, Chartered Accountants' Hall, Moorgate Place, E.C., 12.00
Scapa, The Moat House Hotel, Preston New Road, Blackburn, 12.00
Wellman, The Grand Hotel, Colmore Row, Birmingham, 12.00

BOARD MEETINGS-
Finals:
Banks (Sidney C.)
Douglas (Robert M.)
Dyson (J. & J.)
Independent Inv.
Jacques Vert
Mountleigh
Platignum
Smith (David S.)
Interims:
Allied Textile
Continental Assets Tst.
Derby Tst.
Green Property
Hill & Smith
ICI
Jacobs (John I.)
Norsk Hydro
Owners Abroad
Sphere Inv. Tst.
Yeoman Inv. Tst.

DIVIDEND AND INTEREST PAYMENTS-
Abtrust New Dawn Inv. Tst. 1p
BSS 11.5p
Donelon Tyson 0.75p
Finlay (James) 2.15p
Marubeni HK 8% Gtd. Bds. 1994 4pc.
Rolfe & Nolan Comp. Servs. 5.4p
Stoddard Sekers Intl. 1.95p
Treasury 7¾% Ln. 2012/15 3.875pc.
Do. 2½% IL 2016 £1.8147
Willoughby's Cons. 1p
Do. Pfd. 1p

FRIDAY JULY 27

COMPANY MEETINGS-
Allen, The Portland Thistle Hotel, Portland Street, Manchester, 12.15
BPB Inds., The Intercontinental Hotel, 1 Hamilton Place, W., 12.00
British Steel, Grosvenor House Hotel, Park Lane, W., 11.00
Chamberlin & Hill, Chuckery Foundary, Walsall, 12.00
Electrocomponents, 21 Knightsbridge, S.W., 12.00
Finlay (James), The Merchant House of Glasgow, 7 West George Street, Glasgow, 12.15
Hobson, Founders Courts, Lothbury, E.C., 10.00
Lowndes Queensway, The Brands Hatch Thistle Hotel, Brands Hatch, West Kingsdown, 10.30
Portsmouth & Sunderland Newspapers, The Echo, Pennywell Indl. Estate, Sunderland, Tyne & Wear, 12.30
Rothmans Intl., Inn on the Park, Hamilton Place, Park Lane, W., 12.00
Thorn EMI, The Grosvenor House Hotel, Park Lane, W., 11.30
Tinsley Robor, Mint House, 77 Mansell Street, E., 10.30

BOARD MEETINGS-
Finals:
ATP Comms.
Applied Hydrographics
Forminster
Gibbs Mew
Optical & Medical
Interims:
European Assets Tst.
Greenfriar Inv.
Greggs
Jourdan (Thomas)
Lex Service
Lloyds Bank
Prospect Inds.
Royal Dutch Petroleum
Shell Oil
Shell Transport & Trading

DIVIDEND AND INTEREST PAYMENTS-
Allied-Lyons 11.3p
Bank of Nova Scotia 25cts.
Billon (Percy) Accum. 0.1p
Do. Ord. 11.21p
Blenheim Exhibitions 8p
Blyvooruitzicht Gold Mining 6.35055p
British Airways 6.05p
Brooke Tool Eng. 0.725p
Canadian Imperial Bank of Commerce 33cts.
Chamberlin & Hill 4p
Chancery 5.9p
Chiltern Radio 1p
Clayhithe 4.25p
Compass 3.45p
Darby 2.1p
Devenish (J. A.) 1.05p
EMAP 4.78p
Eastern Transvaal Cons. Mines 42.874292p
Eldridge, Pope & Co. A (Rest. Vtg.) 1.75p
European Colour 0.4p
Hartebeestfontein Gold Mining 13.934145p
Isoped Intl. 3.85p
Jarvis Porter 2.8p
Johnson & Firth Brown 1p
Locker (Thomas) 1.1p
Do. A NV 1.1p
Macdonald Martin Distilleries A 24p
Do. B 12p
McCarthy & Stone 0.5p
Powerscreen Intl. 3.59p
Rowlinson Securities 1.11p
Sidlaw 3p
Tie Rack 0.265p
Time Products 4.5p
Waddington (John) 4.3p
Wardell Roberts 1.76p
Wellman 1.35p
Whitbread Inv. 8.25p
Whitbread A 11p
Do. B 11p

SATURDAY JULY 28

DIVIDEND AND INTEREST PAYMENTS-
Allen 3.2p
Australia (Commonwealth of) 13½% Ln. 2010 6.75pc.
Treasury 8½% Ln. 2000 4.25pc.

Parliamentary

Today

Commons: Motion for Summer Adjournment. Proceedings on the consolidated fund (appropriation) Bill.

Lords: British Nationality (Hong Kong) Bill, third reading. Landlord and Tenant (Licence Premises) Bill, third reading. Landlord and Tenant (Licence Premises) (No 2) Bill, second reading.

Tomorrow

Commons: Opposition debate on "Government mismanagement of the economy". Remaining stages of the contracts (applicable law) Bill. Motion on the European Bank for reconstruction and development orders. Motion on EC Merger Control (Consequential Provisions) Regulations. Opposed private business 7pm.

Lords: Marriage (Registration of Buildings) Bill, third reading. Representation of the People Bill, third reading. Broadcasting Bill, Committee. Motion calling on government to amend the Education (Student Loans) regulations to raise support above benefit levels. Motion for approval on Social Security Benefits.

Wednesday

Commons: Remaining stages of the Courts and Legal Services Bill.

Lords: Clyde Port Authority Bill, second reading. Enterprise and New Towns (Scotland) Bill, third reading. Broadcasting Bill, Committee. Motions for approval on company Fee regulations, Weights and Measures Orders, EC Merger Control Regulations, and the European Bank for Reconstruction and development order. Select Committees: Environment - subject, Indoor pollution. Witnesses: Health and Safety Executive (Rm 21, 10.30 am).

Parliamentary Commissioner for Administration - subject, Commissioners Report for 1989. Witness: Sir Michael Partridge, Dept of Social Security (Rm 19, 10:45 am).

Social Services - subject, Social security expenditure. Witness: Rt Hon Tony Newton MP, Social Security Secretary (Rm 8, 4.15 pm).

Treasury and Civil Service - subject, European Economic and Monetary Union. Witness: Rt Hon John Major MP Chancellor of the Exchequer (Grand Comm Rm, Westminster Hall, 4.30 pm).

Committee on Private Bill: Tees and Hartleypool Port Authority Bill (Rm 6, 10.30 am).

Thursday

Commons: Debates on the Motion for the Adjournment.

Lords: Employment Bill third reading. Broadcasting Bill, Committee. Parliament breaks for the summer recess.

Trade fairs and exhibitions: UK

July 29-31
Sun & Swimwear Exhibition (071- 973 6401)
Marriott Hotel, London

August 2-5
N.E.C. August Fair for Connoisseurs and Collectors of Antiques (021-780 4171)
Birmingham

August 12-14
Medium to Top Range Women's Clothing Exhibition - PREMIER COLLECTIONS (081-742 2828)
NEC,Birmingham

August 16-19
Antiques Fair (071-873 6401)
Kensington Town Hall

August 18-19
Town & Country Show (0775 820243)
Harrogate Showground

Aug 30-Sep 1
Telecommunications Industry Association Trade Exhibition (071-262 2886)
Manchester G-Mex Centre

September 2-6
International Autumn Fair (081-855 9201)
Olympia

September 4-6
Water and Environmental Management Exhibition and Conference (071-973 6401)
Exbn & Conf Centre, Glasgow

September 12
Women in Business Exhibition (081-688 9966)
Fairfield Halls, Croydon

September 19-30
British Internatinal Motor Show (071-235 7000)
NEC, Birmingham

September 21-25
International Broadcasting Exhibition and Convention (071-240 1871)
Metropole Exbn Hall, Brighton

Overseas exhibitions

July 26-29
International Woodworking Machinery Tools & Accessories Exhibition - FURNTECH/WOODTECH (081-940 3777)
Bangkok

August 12-15
International Offfice Technology Exhibition - OFFICE TECHNOLOGY COMMUNICATIONS (071-486 1951)
Melbourne

August 19-22
International Video & TV Equipment Fair - VIDEO EXPO (021-455 9600)
Sao Paulo

September 1-5
Jewellery, Gold, Tableware, Clocks and Gifts Exhibition - BIJORHCA (071-221 3660)
Paris

September 2-8
International Autumn Fair (0375 392222)
Leipzig

September 9-12
International fashion Fair - IGEDO (071-625 4506)
Dusseldorf

September 10-14
International Environmental Technology, Waste, Management and Municipal Cleaning Exhibition - ENVIRO (071-495 7977)
Amsterdam

September 12-19
International Engineering Fair (071-639 7265)
Brno

September 24-30
International Technical Fair (071-836 5219)
Plovdiv

Business and management conferences

July 24-26
Management Training Consultants (Leicester): Successful managers in action - practical steps for improving teamwork and productivity (0533 627062)
Leicester

July 25-26
FIBEX: Doing business in Eastern Europe - encompassing an overview of Eastern Europe and focusing on individual countries (071-489 9944)
Hilton Hotel, London

August 6-10
SIGGRAPH 90- International conference on computer graphics and interactive techniques (Chicago 312-644 6610)
Dallas Convention Centre

August 12-14
Frost & Sullivan: Business intelligence - How to gain hospitality and retain a competitive advantage (071-730 3438)
Brighton

August 28-30
Financial Times Conferences: World aerospace and air transport (071-925 2323)
Hotel Inter-Continental, London

September 7
HS Conference Studies: Finding solutions when property companies hit trouble (071-935 2382)
Portman Inter-Continental Hotel, London

September 13-14
Hawksmere: Successful negotiating techniques (071-824 8257)
Holiday Inn, Swiss Cottage

September 18-19
Hawksmere: Achieving outstanding management results (071-824 8257)
Rembrandt Hotel, London

September 24-25
Financial Times Conferences: World mobile communications (071-925 2323)
London

September 27
HS Conference Studies: Property investment in Europe (071-935 2382)
Cafe Royal, London

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

FINANCIAL TIMES CONFERENCE

FT-CITY COURSE

8 October-26 November - London

The FT-City Course is designed for employees in companies with interests in the City to provide a broader understanding of all aspects of the operations of the City of London and the factors that make it a pre-eminent financial and trading centre.

The twenty-four distinguished lecturers will consider such topics as the operations of the Bank of England and its relations with other central banks, the role of the clearing banks, merchant banks, investment banks and the operation of the discount market. The syllabus will examine the changing role of the building societies, the organisation of the commodity markets, the International Stock Exchange and the structure of the UK insurance industry. The programme also looks at the new statutory systems of regulation and compliance. The course will comprise eight weekly afternoon sessions and will take place at the Museum of London.

INVESTMENT OPPORTUNITIES IN BRITISH BROADCASTING

9 & 10 October - London

British broadcasting is about to enter one of its most dramatic periods of change as ITV franchises are put out to competitive tender, three new national commercial radio networks are set up and a national fifth television channel created. At the same time, the traditional broadcasters will be facing increasing competition from cable and satellite television. It is to look at the challenges and opportunities of the new broadcasting environment in the UK and, in particular, at the new investors who could be attracted, that the Financial Times is arranging this high-level forum.

Speakers include: Mr James Lee, Director of The Boston Consulting Group; M Marc Tessier, Directeur Général of Canal Plus International; Mr Michael Darlow, Chariman of Production Centre and Independent Programme Producers Association; Mr Will Wyatt, Assistant Managing Director of Network Televisin at the BBC; Mr Jon Davey, Director General of Cable Authority; Mr Michael Braham, Chief Executive of Broadcast Communications Plc; and Mr Brian Wenham, Chairman of Crown Television Limited.

PRODUCT STRATEGIES FOR THE 90s

15 & 16 October - London

Product strategies for the 90s will be the subject of a European management forum the Financial Times is arranging in collaboration with the Design Management Institute, with the support of the Department of Trade and Industry and the Design Council. The aim of this high-level meeting is to bring together senior executives from major international corporations and leading experts in industrial design to identify and discuss the future development of design management in business, and the opportunities for accelerating development lead times.

In addition to individual speakers the programme will include team presentations from two major US companies, Digital Equipment and Texas Instruments. The conference will coincide with the London opening of a Design Management Institute/Design Council exhibition on 'Designing for Product Success' throughout the Third Europe, North America and the Far East.

All enquiries should be addressed to:
Financial Times Conference Organisation
126 Jermyn Street, London SW1Y 4UJ
Tel: 071-925 2323 (24-hour answering service)
Telex: 27347 FT CONF G Fax: 071-925 2125

FINANCIAL TIMES SURVEY

NEW ZEALAND

Monday July 23 1990

In the 1980s, radical economic reforms, independent foreign policy and sporting dramas kept New Zealand in the spotlight. But what of the 1990s, asks **Kevin Brown**. Political and economic uncertainties seem set to come to a head around the general election in October

The voters are uneasy

AFTER six years of rapid free market reform, New Zealanders seem ready for a break. The pace of change has been hectic since Labour ousted the conservative National Party in 1984, and it will leave its mark on New Zealand for a generation. But it has not yet provided the prosperity Labour promised, and it has left the voters uneasy about the wisdom of abandoning a century of state interventionism.

If the opinion polls are right, that failure will put Labour out of government in the general election in October. But unless there is a change of heart in the National Party, there will be no fundamental change in the free market economic policies with which New Zealand has become identified.

"There has been a substantial shift of gravity in our own caucus (parliamentary party)," says Mrs Ruth Richardson, the National Party's finance spokesman. "We will stick with the strengths of Labour and put right the weaknesses. There is a clear constituency in our caucus for going ahead with that."

Mr Jim Bolger, the National Party leader, rejects with some asperity the suggestion that there is little to choose between the economic policies of Labour and the Nationals, but the differences appear to lie in the details rather than the broad thrust.

For example, the Nationals would relax Labour's tough anti-inflation policy in pursuit of lower interest rates and higher growth in real Gross Domestic Product. But the relaxation would be slight – shifting the target of 0-2 per cent inflation from 1992 to 1993.

The Reserve Bank Act, which puts monetary policy in the hands of the Bank's Governor, and gives him a a legal duty to have regard solely to the achievement of the target, would not be repealed or amended.

The National Party says it would take a stronger line than Labour on reducing public expenditure, largely by attacking social welfare transfers, and would reform the labour market by abandoning compulsory trade unionism – an area in which Labour has attempted only tentative reform.

However, the Nationals have no plans to abandon any of Labour's attempts to free the economy by reducing protection and increasing competition and efficiency.

"We think the National Party's policies on health and compulsory unionism will disadvantage workers and cause industrial problems at some worksites. But we can detect no significant difference between the economic policies of the two main parties," says Mr Ron Burgess, secretary of the New Zealand Council of Trade Unions.

In effect, the National Party would seek to manage the move towards a more open economy more effectively and with less pain. But, like the conservatives who followed the reforming Liberal administrations of the 1890s – which laid the foundations of the modern New Zealand welfare state – they have achieved respectability with the voters largely by stealing their opponents' clothes.

It has been a remarkable change of course for the National Party, which in the late 1970s and early 1980s presided over the nearest thing to a command economy outside Eastern Europe, with a full panoply of protection, exchange controls and subsidy regimes.

Confronted by the effects of the two oil shocks of the 1970s, and the entry of the UK – then New Zealand's largest market – into the EC, the then National government under Sir Robert Muldoon did make tentative plans to increase economic flexibility.

But a complete break with the past proved beyond Sir Robert, and it was left to Labour – nominally a party of the left – to introduce a long list of radical reforms designed to turn around an economy which experienced average real growth in GDP of just 0.8 per cent between 1969 and 1984.

Labour deregulated the financial markets, floated the currency, removed import licensing, reduced tariffs and export incentives, commercialised many government trading departments, introduced a comprehensive value added tax, and slashed personal and corporate tax rates.

It also made the Reserve Bank fully independent, and privatised a host of state-owned companies, including Air New Zealand, NZ Telecom, Postbank and Rural Bank, NZ Steel, Petrocrop and the Tourist Hotel Corporation.

At the same time, it has followed a tight fiscal and monetary policy which has brought the budget almost into balance and reduced inflation to an underlying rate of less than 5 per cent, compared to an average of 15 per cent in the previous two decades.

On the other hand, high interest rates have helped to create a shallow recession from which the country is only just emerging; the current account of the balance of payments remains stubbornly in deficit; and unemployment has ballooned to the historically high level of 7.3 per cent.

In many ways, Labour's programme was no more than a reflection of deregulatory policies being pursued by many other OECD governments. But the impact has been greater in New Zealand because of the speed with which the programme was carried out, and the break with the past which it represented.

To make things worse, the painful economic reorientation has taken place against the background of a cultural upheaval in which New Zealand is modifying its former perception of itself as an outpost of Europe in the South Seas.

The most obvious example of this is an increasingly close trading and defence relationship with Australia, although New Zealanders rule out any possibility of political union. New Zealand rejected Australian statehood nearly a century ago, and sees no advantages of being ruled from Canberra now.

In any case, such a development would be in conflict with New Zealand's emerging perception of itself as a regional leader of a community of South Pacific Island nations.

That perception has been given a sharper focus this year by the 150th anniversary of the Treaty of Waitangi between the Maori and the British government, which reluctantly annexed the country to keep it from the French.

Maori land claims under the treaty have mushroomed since Labour legislation widened its effect in 1984, and there have even been attempts to stop privatisations going through on the grounds that state land belongs to the tribes.

Pakeha (European) public opinion has been outraged by some Maori activists, particularly those who insulted the Queen during the Waitangi celebrations in February.

Commentators have also made much of the emergence of Maori gangs with names like Black Power and the Mongrel Mob, linking their violent behaviour to an increase in crime generally to posit a breakdown in race relations and law and order.

In fact, most Pakeha rarely see a gang member, and much of what violence does occur is in fights between rival gangs. Likewise, the crime level, though rising, remains low by the standards of many other countries.

Sir Graham Latimer, chairman of the Maori Council, says the more assertive tone of the Maori people is rooted in their perception that it is time for them to catch up with Pakeha living standards, which he estimates are 50 per cent higher.

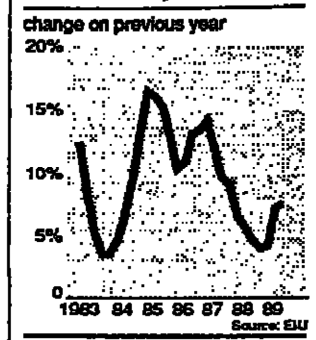
Predictions of open racial strife have not been fulfilled, and are probably wide of the mark. But they are one of the most striking illustrations of the loss of self-confidence and increasing uncertainty among New Zealanders, many of whom wonder where their country is going.

A National Party election victory would give New Zealand the break from Labour for which it is clearly looking. But the country's course seems to have been set, for good or ill. And in the absence of a switch of tack by the Nationals, the history books may show that Labour has won the war, even if it loses the battle.

New Zealand, unbeaten in four years of international competition, is the Rugby Union world champion – and that is just one of the country's areas of outstanding sporting achievement. Why is it that this small country does so well? See story on page 4

IN THIS SURVEY

Consumer prices



Kevin Brown assesses the run-up to the election

Heat is on for Labour

PARLIAMENT in Wellington is no place for the faint hearted, especially in a pre-election period in which Opposition MPs are becoming increasingly confident that many of their government opponents are heading for the dole queue.

As election day in October creeps steadily nearer, the ruling Labour Party's share of the vote seems stuck in the low 20s, while the opposition National (conservative) Party records support in the high 40s in most polls.

With its supporters apparently refusing to come back to the fold, Labour has been left hoping that it will win most of the large undecided vote, which for a while was running second in the polls to the Nationals.

Mr Mike Moore, Foreign Affairs Minister and a likely candidate in the leadership battle which will follow if Labour loses, proposed a different approach, tongue only slightly in cheek. "We believe the polls," he said. "In a week's time, the Labour Party is going to change its name to the Don't Knows."

Most Labour ministers are keeping up a bold front, almost convincing themselves that they can still win, but the party has been behind in most polls since December 1987.

The government's poll rating rallied when Mr Geoffrey Palmer replaced Mr David Lange as Prime Minister a year ago, but the revival turned out to be short-lived as Mr Palmer proved a capable but uninspiring replacement for his sharp-witted predecessor.

Over at the Treasury, Mr David Caygill has proved a consistently good front bench debater as Finance Minister, and has won many friends with his competent and open-minded handling of a difficult portfolio during what has turned out to be a stubborn recession.

But well liked as Mr Caygill is, he has proved unable to inspire the country in the way that his predecessor, Mr Roger Douglas, was able to do before he fell out with Mr Lange and retired to the back benches.

The National camp has still not found a leader with the pithy approach and wide appeal of Sir Robert Muldoon, the last National Party Prime Minister, and the man who started the liberalisation programme which was picked up and shaken into life by Mr Douglas.

Mr Jim Bolger, the present leader, confidently expects to move into the Prime Minister's official residence in Thorndon shortly, and says he is impatient to get started. But the evidence is that New Zealanders are little more keen on him than they are on Mr Palmer.

Recently, Labour morale has slumped so low that rumours of a coup against Mr Palmer have begun to surface as MPs mull over whether a change of leader could yet keep the party in office, or at least salvage a significant number of seats.

However, the situation is now so bad that neither Mr Moore nor Mr Caygill – the two most probable replacement leaders – are likely to want to risk leading the party to what looks like certain defeat.

By contrast, Mr Bolger is secure, even though opinion polls show he is less popular among both National voters and the wider electorate than his backbench critic Mr Winston Peters, the only National Party Maori MP.

Mr Peters, a populist who frequently upstages Mr Bolger, has probably missed his chance of the top job, although National may be looking for a leader in three years' time if the Bolger administration turns out, as some observers believe likely, to be a one-term government.

Labour's strategy is threefold: it will try to get across the message that the economy is set to start growing again next year; it will use the next three months, including this month's budget, to produce some vote-winning policies; and it will try to paint National as a party of heartless extremists which would demolish New Zealand's generous social welfare system.

The first part of the strategy seems unlikely to have much impact – the voters' main complaint seems to be that Labour has been promising jam tomorrow for six years while things have got steadily worse.

For the same reason, there has been little public response to Mr Palmer's recent promise that the government would return the country to full employment by 1995. Most of his highly publicised initiative was seen as old policies dressed up in new clothes.

The government will also find it difficult to implement popular policies because any relaxation of its tough financial policies risks wrecking its hard-won credibility.

One thing Labour does not have to worry about is losing support to the minor parties. Both the Greens and the maverick New Labour Party have failed to attract more than three or four per cent support in the polls, and neither looks likely to win a seat under New Zealand's first-past-the-post electoral system.

Labour also benefits from the existence of four seats reserved for Maoris, voting on a separate roll, which have traditionally been won by Labour candidates. However, the wild dreams of some National supporters that Labour will be reduced to those seats alone are unlikely to be realised.

PROFILE: David Caygill

David Caygill: an exponent of no pain, no gain

IF LABOUR loses the election, it will be primarily because the opposition National Party has convinced the electerate that the Government's economic policy has failed.

In most elections the penalty for failure would be the political ellipse of the minister responsible, especially if he was identified with an unorthodox, unpopular strategy.

That fate is not likely to befall Mr David Caygill, New Zealand's Finance Minister, and the man in charge of completing the shake-up begun by former Finance Minister Mr Roger Douglas six years ago.

Far from facing political oblivion, Mr Caygill is being spoken of as a possible successor to Mr Geoffrey Palmer, the Labour leader, if the government is defeated.

His star is rising because he has emerged as one of Labour's best front bench parliamentary spokesmen since Mr Douglas and Mr David Lange, the former Prime Minister, retired to the back benches last year.

At a time when the confidence of National Party MPs is at a high, his robust defence of Labour's policies of deregulation and a tight monetary regime has helped to rally the party for the election battle.

He has also won many friends both within the Labour Party and among the media by admitting frankly that it is the pain caused by the government's economic reforms which has prompted Labour voters to desert in droves.

Yet he maintains the election can still be won, and denies there has been any attempt to slow down the pace of reforms, or that the government has run out of steam in the face of public opposition.

Sitting in his office in the Beehive building – the seat of government in Wellington – he reels off the achievements of the last year: the sale of Telecom; continuing tariff reductions; railway restructuring; port reforms; labour market liberalisation; changes in the coastal shipping and building regimes; tough inflation targets; removal of tax subsidies for superannuation.

"By the standards of many other countries, and by the standards of many other governments of this country, that is a very comprehensive agenda," he says. "It was received with little enthusiasm by the business community, but that says more about the speed of reform over the last five years than it does about what we are doing now."

Mr Caygill does not deny that his approach differs from the flamboyant Mr Douglas, who floated the New Zealand dollar, abandoned import quotas, deregulated the financial sector, and started the process of getting the government out of business.

He says, however, that there has been no change in the thrust of the policies he believes will deliver increasingly rapid growth over the next few years.

"I have no sense of slowing down. Roger was an ideas person. He would disappear for several days and come back with a grand pronouncement. I am more of an incrementalist. But that is not a matter of pausing or consolidating," he says. "We can achieve high rates of sustainable growth in this country. We should not accept less than 3 per cent real growth, and we should aim at 5 per cent. That is ambitious, but we should be ambitious."

"The way to achieve that is to have a more competitive economy, and that is what we have been doing. There has been a lot of pain, but New Zealand is not going to Hell in a handbasket."

If he is to remain in office, Mr Caygill has three months to get that message across to a sceptical electorate.

PROFILE: Donald Brash

Donald Brash: needs a thicker skin than most

DR DONALD BRASH, Governor of the Reserve Bank of New Zealand, needs a thicker skin than most central bankers.

Since February, he has been the only central banker in the world legally required to conduct monetary policy in pursuit of a specific target for inflation.

Under the Reserve Bank Act, the government and the Bank are required to publish a target which can be modified only in specific circumstances, such as to cope with an increase in consumer taxes, or a major movement in the terms of trade.

Dr Brash says he is confident the Bank can achieve the initial target agreed in March with Mr David Caygill, the Finance Minister, which requires the rate of increase in the Consumer Price Index to be reduced to between 0 and 2 per cent by 1992.

If he is right, he will benefit from an incentive system built into his contract to reward good management. If he fails, the government has the right to dismiss him.

Most observers agree that the target is achievable. But there is concern that high interest rates are prolonging New Zealand's current recession, and Dr Brash is becoming a target for criticism from those who would like to see monetary policy relaxed.

Officially, the opposition National Party supports the Reserve Bank Act, although the inflation target will be relaxed slightly if it wins the general election.

But Mr Jim Bolger, the National Party leader, has been critical of interest rate management by the Bank, and talks of the need for the Governor to keep the broader economy in mind as he pursues the inflation target. Sir Robert Muldoon, the former National Party Prime Minister and a likely Cabinet Minister in a National government, has been more explicitly critical of both the competence and independence of the Bank. "I have followed the fortunes of the present Governor since his days at Canterbury University ... and I have to say that he is not in the same class as Karl Otto Pöhl of the [West German] Bundesbank, or Alan Greenspan of the [US] Federal Reserve, and yet he has a degree of independence which is now unmatched anywhere in the world.

"That is one change that an incoming government will have to make," Sir Robert said in a recent speech.

Dr Brash says the Reserve Bank Act has ended the futility of attempting to use monetary policy to expand the economy, which inevitably ends in higher inflation than would otherwise have occurred. But he says it is right that Parliament should retain final authority over the Governor, rather than establishing the Bank as a completely independent entity on the German or US model.

"The government retains the right to give instructions but it must be done publicly," he says. "It is a long way from the traditional Bank of England model, and in some ways it leaves the Bank slightly less independent than the Bundesbank, but in some ways the ability of the government to dismiss the Governor makes us even more keen to achieve the target."

New Zealand is caught between traditional affiliations and geographical reality

A shift in perceived identity

NEW ZEALAND's foreign and defence policies have been dominated over the last six years by the Labour government's refusal to accept nuclear armed or powered ships in its territorial waters, and a long-running row over the sinking of the Greenpeace ship Rainbow Warrior, bombed in Auckland harbour by the French secret service.

The ban on nuclear armed or powered ships caused a rift with the UK and US, both of which refuse to confirm or deny whether their naval ships carry nuclear weapons, and has put an end to intelligence exchanges and military exercises with the US.

Relations with France have improved following independent arbitration on the punishment of the agents who attacked the Rainbow Warrior, but New Zealanders continue to be angered by French nuclear tests at Muroroa atoll in the Pacific.

In both cases, the government's hostility to nuclear activity stems from New Zealand's developing perception of itself as a South Pacific island state, albeit with global trading interests, rather than an outpost of Europe with European or North American defence interests.

Mrs Fran Wilde, the Disarmament Minister, says this refocusing of strategic priorities has led, for example, to a change in the pattern of voting at the United Nations, where New Zealand has abandoned its largely uncritical support of the US in favour of a more independent line.

There have also been major changes in defence priorities as New Zealand has begun to abandon forward defence against high-level threats in favour of a strategy intended to deal with low to medium level threats in the Polynesian islands.

At the same time, however, New Zealand is increasingly pinning its policy towards the countries of Melanesia, Micronesia and South-East Asia on a greater degree of co-operation with Australia, especially in defence equipment procurement.

New Zealand's increasing interest in the Pacific region was set out recently in a report entitled Towards a Pacific Island Community, produced for the government by an independent review group.

"After a thousand years of Maori settlement and nearly two centuries of European settlement, New Zealand is increasingly coming to grips with the realities of its geography," the report concluded. "This report is part of that process. It is about coming to terms with our neighbourhood, and New Zealand's place as one of a community of Pacific Island countries."

The reality of the neighbourhood is that only a small proportion of New Zealanders have spent much time in the Pacific countries, and fewer still would yet regard their country as part of a Pacific Islands Community.

New Zealand is, however, by far the biggest power in the region (excluding Australia, which is developing a more Asia-oriented foreign policy), and has close kinship ties with the island states through the 20 per cent of its population who are of Polynesian origin.

New Zealand also has constitutional responsibility for the defence of the Cook Islands, Nieu and Tokelau, and claims that its anti-nuclear stand is widely supported throughout the region.

The report identifies increased trading opportunities within the Pacific, and concludes that there are opportunities for New Zealand to offer significant political and cultural leadership, particularly in the development of constitutional change in some of the island states.

However, it acknowledges that much of the increasing interest in the region within New Zealand has been generated by the emergence in recent years of terrorism, hijacking, external interference, and military interventionism, especially in Fiji.

"The Rainbow Warrior case of state-backed terrorism, the hijacking of [an] Air New Zealand aircraft at the time of the first military coup in Fiji, and Libyan meddling in the region, all demonstrate that these are not just hypothetical problems," the report says.

The report has not yet been endorsed by the government, but its main conclusions on the need for closer economic, political, diplomatic and defence relationships have been sympathetically received by ministers.

Mr Peter Tapsell, the Defence Minister, says New Zealand has been slow to come to terms with the reality of its geographical position, but has finally outgrown its dependence on overseas powers – first the UK, later the US – to come to its aid.

Government thinking now is that there is no threat of external invasion or attack in the region in the next decade, in spite of expanding military capacity in some of the Pacific rim and Indian Ocean countries to the north.

As a result, New Zealand is developing a two-pronged defence effort:

- The ability to intervene against terrorism or internal upheaval, and to provide disaster assistance following earthquakes or cyclones anywhere in the Polynesian island;
- Close co-operation with Australia to deal with similar events elsewhere in the Pacific, and to provide joint defence against a higher level threat, which would most probably come from Indonesia. To this end New Zealand is spending nearly NZ$1bn to buy, equip and man two Australian-made frigates, and maintains a force of 20 Skyhawk strike aircraft as its contribution to joint air defences.

There is anxiety, however, that a 28 per cent cut in the defence budget over five years, forced on New Zealand by the weakness of its economy, could force a choice between these two areas of concern. These anxieties were voiced strongly by the Pacific Island Community review group, which said it was concerned about cuts in South Pacific military operations which could have unforeseen adverse consequences.

The review group called for the ability to operate throughout the South Pacific region to be made the government's top defence priority, with funding preference over preparations to respond to higher level threats from elsewhere.

For the moment, the government appears likely to continue to try to fulfill both objectives, relying on improvements in efficiency and more up to date equipment to bridge the funding gap.

Meanwhile, the row with the US over nuclear policy appears to have had little long-term impact on New Zealand's relationships with the US and other western countries. Mr Mike Moore, Foreign Affairs and Trade Minister, says the US has effectively quarantined the defence dispute, allowing the two countries to develop a more or less common approach to agriculture in the current round of talks on the General Agreement on Tariff and Trade, for example.

Ministers also have high hopes that Australian proposals for an Asia Pacific Economic Community will begin to make rapid progress following further meetings planned for later this year.

Kevin Brown

THE ANTARCTIC

An immense responsibility

THE Antarctic is unique. It is the world's coldest and highest continent – a harsh but incredibly beautiful and impressive landscape. Several countries, including New Zealand, maintain extensive scientific stations working to unlock the secrets of this huge, frozen world. The United States's McMurdo station has a summer population of more than 1,000, with a cinema, church and shop.

New Zealand has a natural link with the Antarctic. When Captain Robert Falcon Scott went to the South Pole, he stocked up on provisions and set sail from Lyttelton, the port of Christchurch. These days, during the summer months, giant cargo jets maintain a weekly service from Christchurch to the South Pole and McMurdo Sound as part of the American Antarctic scientific exploration programme.

New Zealand has always played a lead role in international regulation of the Antarctic and in formulating treaties. The first treaty, designed to protect the world's largest and last great wilderness was signed by 25 countries.

One clause in that prohibits any alteration or review of the treaty for 30 years. That period is now ending, and any signatory can call for a review next year. So far no country has done so. If a request for a review conference is made, it must be held, but all 25 member nations must agree to any amendment or change.

If any country failed to have its ideas on change adopted, it would have to withdraw from the treaty if it wished to pursue its own policies.

The world has developed dramatically since the treaty was first conceived in 1959, and today the possibility of oil or mineral exploration and even mining being carried out in the Antarctic is more feasible.

In 1982 concerned countries began debating the need to control mineral exploration and mining. From 1983, the Antarctic Minerals Convention, signed at a conference in Wellington, provided a framework to regulate any proposed mineral activities. It also covers such aspects as pollution and protection of the environment.

The Minerals Convention is strongly opposed by Greenpeace, which maintains it allows a country to begin mining operations in Antarctica. Treaty supporters argue that it controls and places limitations on any such activities.

Two countries which did not sign the convention, France and Australia, are holding out for more protection for the Antarctic environment and a total ban on mining. They are, in effect, advocating a world park, an idea strongly favoured 20 years ago by New Zealand, which dropped it in favour of the Minerals Convention, when it gained no international support.

Earlier this month New Zealand's Prime Minister, Mr Geoffrey Palmer, announced plans which incline back to that idea: the promotion of a moratorium on mining in the Antarctic to replace the voluntary restraints of the Minerals Convention.

In addition, a protocol to the Antarctic Treaty will be drafted and put to a meeting of treaty partners in Santiago, Chile, later this year.

Pollution will be an important topic at this conference. In the severe, below-freezing temperatures, waste materials do not rot, decay or rust as they do in more temperate climates, so rubbish and pollution simply accumulate. Last year Greenpeace published photographs of unsightly, long-established rubbish dumps at the American base in Antarctica. This had an immediate effect. The US is now putting considerable effort into cleaning up the pollution and shipping the rubbish out of Antarctica.

Another cause for concern is the possible effect on the environment of the growing tourist traffic. Argentina and Chile regularly run cruise ships into the area; some adventure-type tours now take tourists to Antarctica by charter aircraft; and Australia is planning to renew scenic tourist flights next summer. Some tour operators have talked of building airstrips to accommodate large jets and hotels – a prospect which fills environmentalists and Greenpeace with alarm.

They strongly oppose any such suggestion because of the waste disposal problems. Their fears were given credence a few months ago when there was a serious oil slick when an Argentinian ship ran aground.

The ecology in the Antarctic is extremely fragile. Any disruption to the food chain or the natural environment of the Antarctic, or its wild life, could have a disastrous effect, and in the severe conditions could be irreversible.

Dal Hayward

The economy may be on the brink of sustained growth — or maybe not, writes **Kevin Brown**

Opinion divided on reforms

AFTER six years of radical reform, the New Zealand government claims the economy has emerged from a cacoon of regulation and subsidy, and stands on the threshold of sustained growth.

However, the economy is in the third year of a shallow recession, and some businessmen and economists claim it is being strangled by high interest rates and an over-valued currency. Many favour a managed devaluation to boost exports.

The reforms pushed through by the government have been extensive, including the floating of the New Zealand dollar, financial deregulation, abolition of import quotas, tariff and tax reform, creation of arms-length state-owned enterprises, and privatisation of mines, aviation and telecommunications.

"The government sees itself as having addressed a major micro-economic imbalance that existed five years ago," says Mr David Caygill, the Finance Minister. "We have gone through the pain, and now we are poised to reap the rewards."

The biggest success has been against inflation, which has declined from 16 per cent in 1985 to an underlying rate of less than 5 per cent (excluding consumption tax increases), and is on track to fall to less than 2 per cent in 1992.

There has also been a big reduction in public debt – to around 60 per cent of Gross Domestic Product from 81 per cent in 1987. It is forecast by the Treasury to fall to below 50 per cent by the end of 1992, largely as a result of asset sales.

The financial balance, which measures the soundness of the government's own finances, has improved from an average deficit of 5.3 per cent of GDP between 1981 and 1984 to a deficit of 1.1 per cent in 1989/90 (excluding asset sales). This is forecast by the Reserve Bank to fall to 0.5 per cent of GDP in the current year.

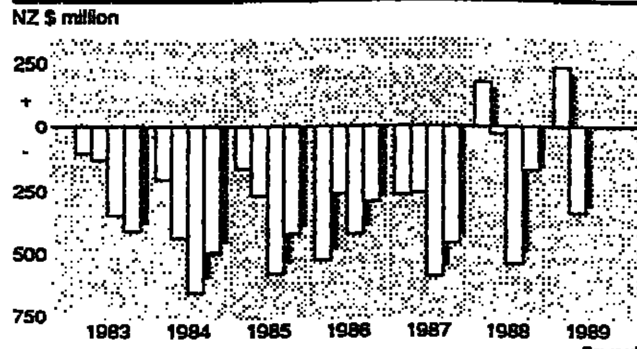
However, progress against inflation has been achieved at the cost of high real interest rates, albeit below UK and Australian levels, which have helped to stifle growth and push up unemployment from 3.9 per cent to more than 7 per cent in four years.

Meanwhile, productive investment has languished, and the Reserve Bank says the deficit on the current account of the balance of payments is likely to have reached nearly 6 per cent of GDP in the year to March.

The government claims that investment and growth will pick up after the election due in October, while the current account deficit will decline as an export-led recovery gets under way.

Current account balance

NZ $ million



Source: EIU

This view is supported by the Reserve Bank, which is forecasting real GDP growth of 2.1 per cent this year and 2.9 per cent next year, following negative growth of 0.1 per cent for 1989/90.

However, more pessimistic forecasters, such as the Berl group, suggest GDP will fall by 0.6 per cent this year before recovering to show negligible growth of 0.8 per cent next year.

The ANZ Bank, taking a middle line, predicts GDP growth of 0.4 per cent this year and 2.2 per cent in 1991/92.

The outlook for the current account deficit remains poor in the view of almost all commentators. The Reserve Bank, which among observers takes the most optimistic view, forecasts strong export growth combined with a slight fall in imports, leading to an improvement in the deficit to 5.2 per cent of GDP, or NZ$3.7bn for the current year.

The Berl group, which takes a gloomier view of the prospects for import penetration, suggests that imports will rise by 4 per cent in each of the next two years, increasing the deficit to just under NZ$5bn by 1991/92.

Berl says that could lead to strong downward pressure on the NZ$, currently at around 61 per cent cent of its 1979 value on the trade weighted index – which the Reserve Bank says is "about right" in present circumstances.

"It is likely that as the seriousness of the balance of payments deficit unfolds and the prospects of an improvement grow dimmer, the financial markets may well write down the value of the New Zealand dollar," the Berl report says.

"Currently there is about a 30 per cent risk of this development, but it is continuing to rise as overseas recognition of New Zealand's difficult situation increases.

"One problem with a market-led depreciation is that an over-shoot is almost certain, and we would expect an initial movement of the order of 20 to 30 per cent."

Many of the local businessmen would welcome such a development because of the boost it would give to commodity exports, although most would prefer a managed reduction combined with a fall in interest rates, which would further help to boost domestic activity.

This course is rejected by Dr Donald Brash, the Governor of the Reserve Bank, who believes it would be inflationary.

He argues that a falling currency encourages exporters to sell on price rather than quality, service and added value.

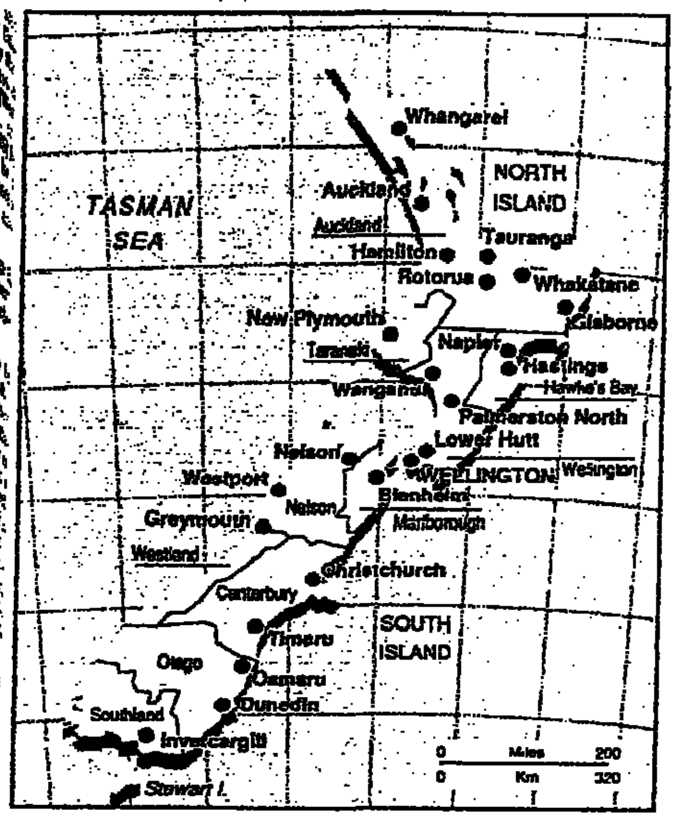
However, a number of independent economists have called for a devaluation to offset the impact of a downturn in export prices for New Zealand's agricultural exports, which were worth NZ$8.3bn in 1989, compared to NZ$2.2bn from tourism and NZ$3bn from manufacturing.

Mr Len Bayliss, a director of BNZ bank, and formerly the bank's chief economist, says that Mr Roger Douglas, the former Finance Minister, was right to attempt major micro-economic restructuring of the economy, but made a cardinal error in persisting with a tight monetary policy aimed at inflation.

"The consequence has been a substantially over-valued foreign exchange rate and high real interest rates which have made it impossible for the economy to grow and so redeploy redundant resources," Mr Bayliss says.

On his view, the consequences of tight monetary policy have been disguised by high migration, which has restrained the unemployment rate, and by a 24 per cent improvement in the terms of trade over the last three years.

"Without this NZ$3.5bn-$4bn export boost, it would have been obvious at a much earlier stage that the government's policies had failed, and more appropriate macro-economic policies could have been implemented," says Mr Bayliss.



KEY FACTS

Area	268,112 sq km
Population	3.3 million
Head of State	Queen Elizabeth II
Currency	New Zealand dollars
Average Exch Rate	1.67 NZ$/US$

ECONOMY	1988	1989
Total GNP †	38,845**	38,207**
Real GNP growth	-0.1%	0.8%
GNP per capita (US$)	11,771	11,577
Current Account Balance †	-522	-2,083
Debt as share of GDP	28.9%	36.7%
Exports incl. non-factor svcs †	8,784	8,825
Imports incl. non-factor svcs †	6,743	8,009
Trade Balance †	2,041	816
Trade Dependency*	40.0%	44.1%
Total reserves minus gold †	2,836	3,027
Inflation	6.4%	5.7%
Unemployment	5.0**	7.4% **
FTA NZ (Dec 1985=100)	113.5	128.4

* Exports plus imports as % of GNP
** Fiscal year ending 31 March
† Figures expressed in US$m

Source: IMF, Economist Intelligence Unit

BANKING

Battered, but surviving

ALTHOUGH the New Zealand banking system has survived the turmoil of 1988 and 1989, when many banks suffered huge losses, it has not fully returned to the stable and settled environment most bankers would prefer. Many banks still feel the pain of losses incurred by unwise loans to entrepreneurial investment groups which collapsed after the 1987 share crash, almost dragging one or two New Zealand banks down with them.

In retrospect the lending debacle resulted from inexperience in handling the newfound freedom of the complete deregulation of the financial and banking systems in 1985. This was combined with overconfidence generated by the heady euphoria engulfing almost all New Zealand's financial and banking world, share markets, and investment operations.

For decades New Zealand had the most rigidly controlled banking system in the Western world. When deregulation happened, there was rapid expansion and intense competition. From only the long established four trading banks, New Zealand today has 21 registered banks.

Bank income from interest earnings is well down and still falling. As profits from traditional banking decrease, banks are forced to consider operations such as real estate, insurance and travel.

The banks have also had to take a hard look at their own internal operations. There has been widespread reorganisation and the quality of management, effectiveness of internal controls and approach to lending have all improved dramatically.

Most banks have also abandoned their global aspirations to become regional or Australasian banks. Even those owned by foreign parent banks operate on a regional basis.

Competition has focused greater attention on the personal customer. All banks, particularly those involved in personal banking, are striving to develop more sophisticated information systems.

Some in the industry claim New Zealand is now overbanked. Certainly some who rushed to set up a New Zealand operation after deregulation found this much more difficult and costly than anticipated. Some are now maintaining only a presence in the New Zealand scene. One, the Canadian Imperial Bank of Commerce, closed its New Zealand operations last year.

It is unlikely all the present players will remain by the end of the decade. There will almost certainly be mergers and more closures, and with one exception no new banks coming into the country. The exception is the former government-owned Rural Bank, a lender in the rural area for traditional farming purposes. It is expected to broaden its base, offering other banking services to its farmer clients and to seek registration.

The introduction this year of the Reserve Bank Amendment Act was important for all banks. This gives the central bank – the Reserve Bank – the framework to operate a prudential supervisory role over registered banks. It places special requirements on them, which gives banks a higher standing than other financial houses.

Before deregulation, finance houses and other non-banking institutions were operating bank-type activities from which the banks themselves were excluded. Since deregulation, banks have regained better standing and the role of the financial houses has declined accordingly.

With their strong emphasis now on customer service and personalised information data, the banks are likely to increase their influence even more in the year ahead.

Dai Hayward

The Trade Minister is arming himself for the Gatt talks, writes **Dai Hayward**

NZ is knocking on the world's door

A ONE PER CENT increase in its dairy trade would create 20,000 new jobs in New Zealand. This is just one reason why Minister of Trade Mr Mike Moore is adamant that progress must be made in removing barriers to world agricultural trade, in the General Agreement on Tariffs and Trade (Gatt) talks at the end of this year.

He warns that if this does not happen, NZ will join a number of other countries which, he says, are prepared "to walk away from the talks, refusing to accept any face-saving compromise or sign a communiqué which papers over disagreements."

Both New Zealand's major producer boards – dairy and meat – stress the need for improved access to the EC, Japan and the US. Their agricultural industries, the most efficient in the world, producing cheap meat and butter, are shut out of many markets by trade barriers, quotas, complete bans or heavy levies or tariffs. The dairy industry in particular is pressing for an end to dumping by the EC which, the board says, creates instability in world markets.

New Zealand, like other members of the Cairns Group, will take a strong stand in the talks at both official and ministerial level. The group has agreed to resist any move to set up a new trade organisation which might give the illusion that something had been achieved by ministers in the Gatt talks.

Mr Moore says politicians from some countries reluctant to admit failure could use the creation of a new trade organisation to claim this was a step forward, while the main problems really remained unsolved. "We won't accept that. We won't do a whitewash. We will walk away if there is no agreement," he says.

New Zealand strongly supports the Cairns group programme which would completely reform agricultural trade over a 10-year period. Unlike some farming countries, New Zealand is not pushing only for greater access and liberalisation of agricultural trade: it also wants a more free climate for service industries such as banking, insurance, international investment and consulting services.

It has tabled a proposal at the preliminary negotiations calling for the establishment of the General Agreement on Trade in Services – Gats – similar to Gatt.

It has also suggested minimum standards to be incorporated in each member country's laws to protect patents, copyright, industrial designs and similar aspects of service industries.

New Zealand believes that if the right agreement can be reached, the increased opportunities will more than compensate for any loss some countries might suffer through removal of protectionist trade barriers. Mr Moore points to France as one country which he claims would benefit through investing its service industries; as would the City of London.

While New Zealand farmers already know what agricultural trade barriers are costing them in reduced incomes, an international study group says New Zealand's trade balance would improve by US$2.4bn if these were removed.

New Zealand's total export earnings last year were just over NZ$15bn. The largest export market is Australia, which takes NZ$2.8bn or more than 18 per cent of all exports. Next comes Japan and the US, both buying between 15 and 16 per cent; then Britain with 11 per cent.

Since the advent of the Closer Economic Relationship – CER – trade agreement between New Zealand and Australia in the 1970s, trade between the two countries has boomed. Initially it was 4-1 in Australia's favour. Five years ago the present government launched a "get into Australia" campaign to encourage manufacturers, including small firms, to enter the export market. Between 1983 and 1989 New Zealand exports to Australia increased by 174 per cent, with the growth being almost 2:1 in New Zealand's favour.

Now trade is almost balanced. Last year exports to Australia at NZ$2.8bn virtually matched imports.

On July 1 this year all remaining trade barriers, tariffs, duties and other prohibitions on goods trade between the two countries was abolished. This was five years faster than the original timetable, and reflects the success of CER to both countries.

Now the two governments have agreed to tackle the next step: the harmonising of tax administration, accountancy regulations, company law, legal requirements, telecommunications, shipping and aviation agreements.

New Zealand manufacturers and exporters are encouraged to consider Australia part of their domestic market. They have embraced this concept with some surprising results: the largest exporter of Australian mutton to Japan, for instance, is a New Zealand company. There are many other similar examples.

CER has also given New Zealand manufacturers and exporters the experience and confidence to tackle export markets further afield. Many have now established worthwhile niche markets in the US and EC. Individual manufacturers have broken into specialised markets with a surprising range of products – fuel tanks for Tiger Moth aircraft, cellular radios and computer software are just a few.

There is a perception that New Zealand sells only butter, lamb and wool to Europe. In fact the EC is now New Zealand's largest export market for wine, leather, hides, apples and kiwi fruit. Less basic things also feature: just last month, for instance, a safety hat manufacturer in a small New Zealand provincial town beat competitors from all over the world to supply the London Fire Brigade with its new firemen's helmets.

The EC is NZ's largest market for wine, leather, hides, apples and kiwi fruit

As a Pacific rim nation, New Zealand is also steadily expanding its trade in the area which has been described as the most dynamic region in the world. Last year the economies of Pacific countries grew by 7.5 per cent in spite of the fact that they contain some of the poorest in the world.

Inter-regional trade in the Pacific, in which New Zealand is a participant, is growing faster than between the 12 countries of the EC.

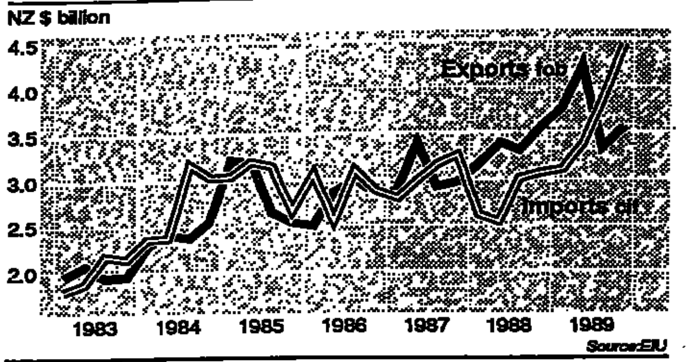
New Zealand exporters no longer look only towards a small group of traditional countries as potential markets. Today they have become experienced international traders.

DIRECTION OF FOREIGN TRADE

	EXPORTS, fob		IMPORTS, cif	
	1988	1989	1988	1989
Australia	128.45	139.94	132.36	152.09
Japan	129.64	128.31	103.95	134.74
USA	100.22	97.41	101.98	119.27
UK	53.15	53.03	52.76	64.70
South Korea	17.14	24.77	14.68	14.52
West Germany	16.18	16.74	30.00	30.75
USSR	13.78	15.08	-	-
China	34.16	14.67	-	-
Taiwan	-	-	20.48	25.51
Saudi Arabia	-	-	15.05	21.63

Monthly averages given, in NZ$m
Source: EIU country profile: New Zealand

Foreign trade



SPORT

Outstanding achievers

THE All Blacks, New Zealand's national rugby team, convincing winners of the first Rugby World Cup and unbeaten in four years of international competition, are the undisputed Rugby Union world champions.

This, however, is only one sport in which New Zealand athletes have achieved world prominence. New Zealand, with a population of less than 3.2m, is recognised as one of the outstanding achievers in world sport. Its medal tally at both Los Angeles and Seoul Olympics, on a per capita population basis, far exceeded that of any other country. At Los Angeles New Zealand's actual medal count was higher than its traditional sporting rival, Australia, much to the delight of Kiwis and chagrin of the Australians.

First and second places in the recent Whitbread Round the World Yacht Race were filled by New Zealand yachts and crews. Sir Richard Hadlee, greatest wicket taker in Test cricket, continues to outwit opposing batsmen. Susan Devoy, six times world champion, continues to dominate world squash. In the past two years New Zealand is, or has been, world champion in men and women's softball, bowls, netball, yachting, sculling, *canoeing, kayaking, several* classes of sailing, men and women's rowing and in women's marathon running.

Mark Todd, riding Charisma, was the first person in 50 years to win the three-day eventing gold medal at successive Olympics. Two years ago Todd was also first and second on different horses at England's premiere equestrian event, Burleigh; while another New Zealander, Tinks Pottinger, was fourth and sixth at the same event.

Erin Baker has won the gruelling world women's triathlon championship three times. In 1988 compatriot Richard Wells became men's champion. Veteran New Zealand golfer Bob Charles first won the British Open in 1963. Last year, playing in the veteran masters' circuit, he won US$725,000, and in four years in the US seniors circuit he has become the leading money earner. Young compatriot, 16-year-old schoolboy Stephen Alker, shot a record 139 to win the 1988 schoolboys *world golf championship on* Sunningdale Old Course.

Many other New Zealanders have collected honours or championships in a whole range of sports from sail boarding to kayaking. Why does New Zealand excel in the sporting arena?

The first reason is the healthy environment. New Zealanders enjoy an abundance of healthy food, fresh air and easy access to the outdoors, which leads to a lifestyle in which sport thrives.

High among other reasons comes pride in their country. New Zealanders are out to prove that although they come from an isolated and distant land, they can beat bigger, more affluent countries which have the benefit of higher sporting technical facilities.

Commitment and initiative are other factors. Canoeist Olympic gold medallist Ian Ferguson, camped in a tent alongside the course when competing for a world title because he could not afford *accommodation*. Ferguson, now holder of six Olympic gold medals, a silver, a bronze and a handful of world championships, later received a grant from the New Zealand Sports Foundation to help cover such costs.

The Foundation, established in 1979, channels assistance to promising New Zealand sportsmen and women so they can develop their full potential. To travel to events in the northern hemisphere is expensive for New Zealand – especially when equipment has to be shipped. Foundation grants to individual sportsmen help cover such essential costs.

New Zealand sportsmen combine a supreme dedication to training and coaching with resourcefulness. Many New Zealanders are practical do-it-yourselfers. Often driven by economic necessity, they will make or devise their own equipment – sometimes defying convention. A group of young dinghy sailors, for example, with no technical knowledge, developed new sail and rig concepts which made New Zealand Olympic 407 class crews unbeatable for several seasons.

A final consideration is public attitude and social atmosphere. New Zealand is a great sports-loving country, in which any youngster showing potential receives the opportunity and encouragement to make it *to the top*.

Dai Hayward

Maoris get a serious hearing

CLAIMS by Maori tribes in Taranaki Province for compensation for return of land and resources, alleged to have been confiscated by the Pakeha (whites) 130 years ago, and now worth billions of dollars, will be heard by the Waitangi tribunal – a semi judicial body – in October.

The claims, with a common thread of confiscation, are the largest the tribunal, which adjudicates on Maori issues, has dealt with in North Island.

The fact that a century later a judicial body is hearing claims reflects the long dissatisfaction on the part of Maori people at the way the Pakeha partner failed to honour the Treaty of Waitangi, under which New Zealand was ceded to Britain – as well as the effort of the present government to resolve these grievances.

The treaty of Waitangi, guaranteed Maori lands, fishing rights and treasures. Maoris say the treaty was never properly upheld. Certainly land was confiscated, and the rights of Maoris frequently ignored by early governments.

The past decade has seen growing pressure from Maori lobby groups to redress some of the perceived injustices. With the more sympathetic attitude of the present Labour government – the first to give the treaty legal status under New Zealand law – claims multiplied. This, along with "anti-white" action by Maori extremists, led to a white backlash and growing racial tension. However, over the last year, with a better understanding of one another's point of view, controversy has eased.

The basic Maori argument is simple as expressed by activist, lawyer Moana Jackson, who says: "The Pakeha did not hold their part of the bargain. No matter how much time passes the treaty must be honoured."

Ms Jackson, along with others, advocates a separate system of justice for Maoris. She argues that European-based law and justice systems are unfair to the Maori, and the reason why Maoris, who constitute only 12 per cent of the total population, provide 50 per cent of the prison population. This has been rejected by various governments, which insist all New Zealanders must have one set of laws.

Maori activists also want control of all things affecting Maoris in areas such as education and social needs. They also insist on compensation for wrongs inflicted when the Crown confiscated Maori land.

In many cases, courts and government have accepted this. In June, the government handed over to descendants of the original Maori owners one of New Zealand's most famous tourist attractions: share ownership and control of the Waitomo glow worm caves. The new partners also received NZ$1m advance on expected revenue.

Moves such as this are helping to resolve some issues and improve race relations, but it will be many years before all outstanding claims are settled by the courts or tribunal.

Pacific islanders in New Zealand increased rapidly over the past 10 years. This, too, has caused friction between Maori and Polynesians, who have taken many of the lower-paid, unskilled jobs. There is a centuries-old tribal antagonism between different Polynesian groups and the Maori, who together total 15 per cent of all New Zealanders.

Dai Hayward

Dai Hayward reports on the position of the primary industries

Lifeblood of the economy

THE HEALTH of New Zealand's primary industries is vital to its economic survival. Together, dairy products, wool and meat provide 54 per cent of New Zealand's total export earnings. With horticulture and forestry included, they provide 70 per cent of all exports in dollar terms.

Last year the dairy industry alone earned NZ$3bn – about 20 per cent of all exports. Although New Zealand has only 1.5 per cent of the world's milk, the New Zealand Dairy Board is the world's single largest dairy exporter. Its products are consumed in more than 100 countries.

New Zealand is, however, at the mercy of international political barriers and "fire sales" of butter and other dairy products at below cost price by the EC and, to a lesser degree, the US. New Zealand has access to only 4 or 5 per cent of world dairy trade, and when thousands of tonnes of butter are dumped in these markets, New Zealand is forced to compete on *what is seen as unfair* terms.

Regular reductions in the quantity of butter New Zealand is allowed to ship to Britain – still its most important market – are of great concern. The 74,500 tonnes agreed in 1988 has dropped to 61,340 tonnes this year and a proposed 55,000 tonnes in 1992.

Meat producers, both lamb and beef, face similar problems. Although export production has been cut by a third, from 39m lambs in 1984 to 22.4m last season, New Zealand is still the world's largest lamb exporter. The fact that the UK is now the second largest reflects the effect of EC farm subsidies.

Agricultural subsidies in New Zealand were abolished by the present government after it took office in 1984. For a few years this had a traumatic effect on the industry, with many farmers going bankrupt.

In the past decade pre-tax income of New Zealand farmers fell steadily. Between 1975 and 1985 it averaged just under NZ$60,000 (£20,400). In 1985-86 it was NZ$20,000; last year it was $25,500 (£8,500). Last year was the second worst year for New Zealand wool, lamb and beef producers since records began 30 years ago.

Wool growers watched wool prices slide steadily last season and do not expect any improvement in the current season. The huge stockpile in Australia, the economic problems in the Soviet Union which halted New Zealand wool sales and the absence of China from the wool market all contribute to the depressed outlook.

Farmers in all three producing sectors know their net income will be down this season. Each farmer is just as aware as the industry leaders of the importance of the GATT – General Agreement on Tar*iffs and Trade* – *talks* achieving some freeing of agricultural restrictions, particularly by Japan and the EC.

Dairy farmers have been warned by their Board to expect a drop of NZ$25,000 in their income this season. They have been doing better than meat or wool farmers for three years, but now their industry faces another lean period.

Mr Paul Miller, vice-president of the American Breeders Service, told the world agricultural forum in New Zealand in June that even a superficial look shows New Zealand dairy farmers to be more efficient at producing cheap milk than their European counterparts.

This was little comfort for an industry which, in spite of being the world's most cost-effective, is struggling against dumping. New Zealand farmers put the blame for their problems squarely on the EC and USA for dumping dairy products, especially butter, below costs on world markets.

Import bans and controls contribute significantly to New Zealand's dairy problem. New Zealand farmers are particularly irked by Japanese companies *which buy New Zealand* butter at US$1,600 a tonne and retail it in Japan for US$8,000 a tonne. The New Zealand dairy farmer can do little to diversify, because most dairy land is unsuitable for horticulture.

The average New Zealand dairy farm is 160 cows on 140 acres, milked by the farmer with the help only of the family. No other dairy industry in the world can match New Zealand for efficiency and cost effectiveness.

Last year New Zealand produced more than 1bn tonnes of export meat. It earned NZ$2.4bn from lamb, beef and mutton with its most valuable market the USA, which takes most prime beef.

Including customers such as Norway (8 tonnes) and Brunei (1 tonne), New Zealand lamb is now sold in 75 countries; the UK is the biggest consumer, last year eating 102,821 tonnes. Every country in the EC except Greece, where imports fell by 375 tonnes to 12,074 tonnes, increased consumption of New Zealand lamb last year – ironically enough, at the same time as EC officials reduced New Zealand's quota of sheep meat. The current quota of 245,000 tonnes set last year comes down to 205,000 in 1992. There is no allowance at all for beef. New Zealand's meat industry leaders believe the country has received harsh treatment from the EC.

Customers' patterns are also changing. Iran once bought 100,000 tonnes of New Zealand lamb a year; by last year this was down to 8,000 tonnes, partly because it was not prepared to pay world prices.

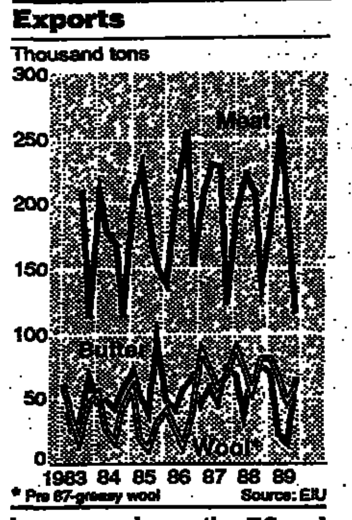
The recent easing of Japan's beef quota has been hailed, and although imports initially face a 70 per cent levy, exporters believe this is the chance to increase Japanese beef consumption.

Wool growers face an income *drop in spite of efforts by the* New Zealand Wool Board to maintain floor levels and farm earnings. This year the board has spent more than NZ$3m buying wool at auction to maintain prices. During the season the stockpile climbed fourfold – from 100,000 to 450,000 bales. Although it would prefer to see wool flow into consumption, the board is committed to continuing a price support scheme.

With the over-supply position, however, market prospects are not buoyant. It will require a 6 per cent increase in consumption each year to absorb the increased production in Australia and other countries.

In the long term, however, prospects for all New Zealand farm industries depend on the liberalisation of world agricultural trade.

Exports



From little pine kernels, giant profits grow

MORE than 550,000 ha (1.3m acres) of state owned pine forests, the largest area of intensively managed industrial forest ever offered anywhere at one time, is up for sale.

The trees, in 99 different forests, are mainly radiata pine planted in the late 1960s and early 1970s to supply New Zealand's expanding forestry-based industries, and sustain an important export market.

More than 100 companies, including 50 foreign ones, are potential bidders. The expected price for the total forest is between NZ$3.5bn and NZ$4.5bn. Most of the interest is coming from Asia, with North American and European companies also interested.

To placate public opposition and critics of the sale, who include former Prime Minister Sir Wallace Rowling, the government is stressing that only the logging rights to the trees are to be sold. It retains ownership of the land but the buyers will also get the roads, buildings and other infrastructure existing in the forests.

Successful bidders have a minimum 35-year lease but also have an automatic annual one year renewal, provided they pay their rent and replant the logged areas in trees or grass. This in effect means that timber companies will have a perpetual right to timber from their leased areas.

This appeals to several foreign companies anxious to obtain a permanent renewable timber supply. The fact that the forests are already planted, and efficiently and skilfully managed to provide a renewable timber resource, as distinct from native unmanaged forests, also appeals to companies abroad.

State forests represent about half of New Zealand's softwood forest plantations of 1.2bn ha. The expanding and profitable private forest industry, including newsprint and pulp mills, relies on both private and state forests for wood supplies. The state also has a large export trade in logs and sawn timber.

New Zealand forestry exports are now worth NZ$1bn a year, but with the increase in timber production predicted to reach 30m cu m annually before the end of the decade, export receipts could increase to NZ$5bn.

The New Zealand Forest Corporation, formed to take over the former government department which operated the state forests, logged 5.9m cu m from the state forests during the past year. Most of the exports were shipped as logs. Korea and the Republic of China are big customers for logs, while Japan buys large tonnages of logs and wood chips.

The Corporation formed three years ago produced a surplus this year over operating costs of NZ$148m compared with NZ$95m the previous year. This was a turnaround from the NZ$90m loss incurred by the government department in its last year of running the state forests.

An analysis by international consultants reports increased New Zealand production this decade will be sufficient to sustain two or three new paper mills, one or two kraft pulp mills, two medium density fibreboard mills, 15 new saw mills and increased log and chip exports of around 5m cu m a year. It would require an investment of NZ$6bn to establish these extra mills and processing plants. This can only come from large private companies, and was one reason the government put the forests on to the open market.

To safeguard timber supplies to small local companies, the new owners must honour existing contracts for two years. Forests established on coastal sand dunes or steep hills to stop sea or flood erosion must be replanted soon after the existing trees are logged.

While attention this year was focused on the state forests sale, private sector forestry companies have continued to expand. Large operators Fletcher Challenge Limited and Carter Holt Harvey both significantly expanded their operations into Chile. FCL, with large operations also in Canada and the USA, is now one of the world's top three forestry companies. Both New Zealand forestry giants are strengthening their base and marketing strategy to take advantage of growing demand for wood products in Pacific Basin countries. Both are bidding for large tracts of the state forests.

It is estimated forestry trade in the Pacific Basin will exceed US$20bn within ten years. New Zealand, with its expanding resources, is well placed to take advantage of this.

One novel aspect of the state forests sale is that in addition to offering the trees, the Forestry Corp is also putting its management teams in the sale catalogue.

A forester at work: exports are worth NZ$1bn a year, and it is predicted they could be five times this by the end of the decade

The Wall

Potsdamer Platz, Berlin

The wall has been broken up and sold to art collectors and memorabilia freaks around the world but on Saturday evening "The Wall" was rebuilt above Hitler's bunker on the Potsdamer Platz in Berlin in one of the most extravagantly ambitious live rock music concerts ever staged.

For the past two months, the no-man's land between East and West Berlin has been occupied by the army of riggers and builders required to establish the set needed to support such a spectacle.

Site clearance, carried out by the East Germany military, produced a miscellaneous collection of guns, grenades and ammunition that would have merited any terrorist organisation's horde. The concert, staged to launch Group Captain Leonard Cheshire's Memorial Fund for International Relief, aims to raise £500m – £5 for every life lost in major wars this century.

The fund will operate on a permanent basis, able to respond immediately a disaster occurs, thus overcoming time wasted in establishing a new fund each time.

The original idea for the concert came from Mick Worwood, who was a major force behind Live Aid. Worwood is an organiser working for charities and has been involved in putting together some of the biggest rock concept events that have taken place.

To bring about "The Wall – Berlin 1990" required the political and military co-operation of the four powers responsible for Berlin. Initial inquiries by Worwood for using Berlin were made last November, before The Wall was demolished and continued throughout the changing political scenario that was rapidly unfolding. Agreements and plans for security, ticket sales and travel documents were all overtaken by political developments.

In a nation that has been divided for so many years, the connection between the Berlin Wall and Pink Floyd's album, "The Wall" – written by Roger Waters as an expression of childhood alienation and suppression which leads to madness – is merely symbolic. But this did not detract from more than 150,000 people crowding into the Potsdamer Platz to enjoy a unique event which was also televised to an international audience of several millions. Neither did the two power failures that interrupted the early part of the performance.

During the past few weeks there has been considerable coverage of the event in the musical press and more serious publications such as *Der Spiegel*, much of it critical. Spiegel was particularly scathing, questioning Waters' motives for staging such a performance and about his lack of success as a solo artist.

Roger Waters is "The Wall." Although all the musical elements in Saturday's concert were performed by an impressive line up of musicians and singers from the archives of rock, without Waters' singing the performance would have been deprived.

The first live performance of "The Wall" was in Los Angeles in February, 1980, since then it has been staged several times in the US, Britain and once in West Germany, but never before on this scale.

On Saturday evening a helicopter hovered above, menacing the crowd and sweeping the Potsdamer Platz with searchlights, while on the ground synchronised searchlights raked the sky. Roger Waters' ten piece Bleeding Heart Band, dwarfed on stage at various times by the huge inflated puppets of a teacher and a pig, which burst through the wall, and the largest musical set ever built taking shape around them worked their way through the two hour performance.

Four screens, one 16 metres in diameter were used to display specially commissioned stills and Gerald Scarfe's animated images from the movie and large areas of The Wall were used as a backdrop for a montage of tortured cartoons and war pictures.

The performance by the Bleeding Heart Band, which included Andy Fairweather Low on guitar, emphasised Waters' ability to put together a concert that ridiculed the statements of some of his critics.

Major roles in the piece were taken by Sinead O'Conner, Joni Mitchell, Van Morrison and Bob Dylan's old backing group The Band, whose voices and expressions had more directness and power than the original work by Waters' old group Pink Floyd. Van Morrison in particular cutting his way through "Comfortably Numb," the barrel-chested Belfast Cowboy breaking the words and phrases as only he is capable, supported by Garth Hudson and Levon Helm from The Band.

Unfortunately, the earlier stages were disrupted by power failures the second of which silenced Sinead O'Conner, appearing suitably crop-headed as a young boy singing "Mother."

In the second half the Combined Marching Band of the Combined Soviet Forces in Germany occupied the stage, well-choreographed and filling the role that they could easily slot into in the developing political stage, a role infinitely preferable to being billetted in the railway coaches being used to house some of their colleagues who have already returned to Russia.

Even Jerry Hall, clad in party dress, breezed through a role for which her voice was totally appropriate – the girl on the telephone.

For all the splendour, drama and pyrotechnics, up to the climax of the evening, when the 2,500 bricks forming The Wall came crashing to the stage, the question must be, what does one do with so much waste styrofoam.

David Rushby

Madonna

Wembley Stadium

The Blonde Ambition tour is not the Prime Minister's electoral drive through the Tory summer garden parties, but the latest manifestation of Madonna, a much tougher cookie altogether. In fact there is a danger that Madonna's "girls on top" philosophy is getting dangerously close to self-parody if not to criminal prosecution.

On her last visit to Wembley three years ago she at least acknowledged the existence of an audience, throwing them the odd pair of knickers. This time everything on stage looks as if it was created, costumed, perfected, and manufactured by a Dream Factory with some very old-fashioned ideas on how to manipulate men.

Madonna talks dirty; dresses dirty; dances dirty – and justifies it all as a big joke. Or as she shouts out (although more boldly) "You've got to have frigging sense of humour." Of course there are also the songs, but they are just the hook on which to hang the cameo vignette of Madonna, dressed now as a leather fetishist; now as a nun; now as a tart; now as a fashion dummy, as she pouts around the stage flaunting the various corsages designed for her by Jean Paul Gaultier. The trick, apparently, is to wear your corset on top of your clothes, and a bra in the shape of an aggressive pyramid.

The show is mesmerising but soulless. The shenanigans on stage become the distant trigger for the close ups on the giant screen, and the cameramen concentrate not on Madonna's vocal performance but on intimate shots of her crotch, or lips, especially in "Like a Virgin," performed expressively astride a giant red bed. You can understand the Vatican's censure of the act as she immediately transforms into a nun for "Like a Prayer" and then goes on to seduce a priest in "Oh Father." After this section "Poppa Don't Preach" powerfully performed comes across almost as a romantic ballad.

The extent to which this amazing woman, and her fantasies, dominate the evening is underlined when the band comes on to take its bow. You'd actually forgotten they were there. It is harder to ignore the dancers. Madonna acknowledges them by kicking the girls as they lie on the floor and crawling up the thighs of the guys.

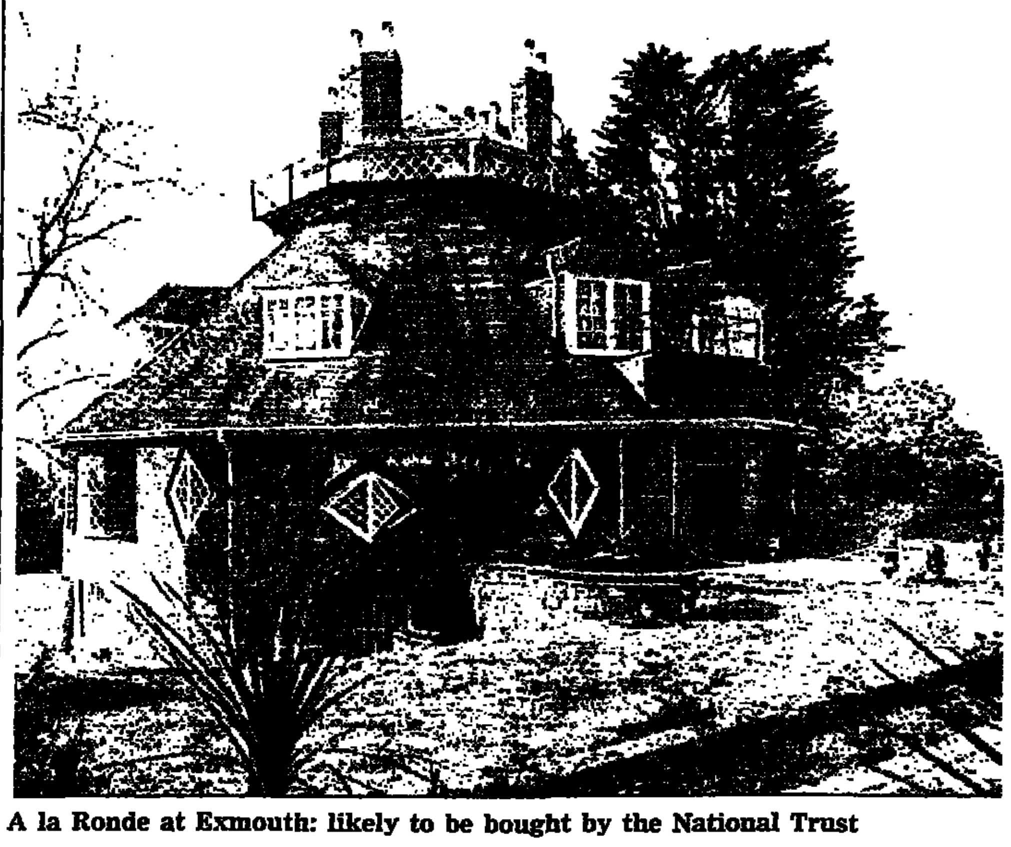
There are few special effects. Madonna effortlessly discharges enough light, sound, fury, and energy to power the whole of Wembley. She moves like perfection, leading her dancers into ever more gymnastic routines, just as she taunts the audience with mounting bravado. "People say I've got a lot of balls," she sneers. "But I haven't. What

Madonna at Wembley

I've got is a Dick." This is the provocative intro to the weakest part of the evening, a plug for her latest movie *Dick Tracy*. "You never know a guy till you're talking rubbers," she advises as she strips the coats of the male dancers to reveal their leather jock straps.

Sex; religion; and, in her endorsement of capitalist virtues in "Material Girl," politics – Madonna takes on all the controversial taboos and whips them to death. But one is left thinking that a girl who comes on so strong must have so much to cover up. That is the enigma.

Antony Thorncroft



A la Ronde at Exmouth: likely to be bought by the National Trust

ARCHITECTURE

Have Pevsner, will travel

Colin Amery appreciates the legacy of an enlightened cicerone

It is impossible to imagine a world without Pevsner. As summer and travelling time arrives the Penguin Pevsners are in constant use. How fortunate we were that a German refugee should have had the immense dedication to complete a survey of every building of architectural importance in every county of England. What happens in deprived countries who were denied this visitation? Imagine the value of a Pevsner for Spain or Poland. And consider how much you could learn if the glory of French architecture had been made accessible through Pevsner's eyes. Sir Nikolaus Pevsner died in 1983 leaving behind a legacy of labour and enough acolytes to ensure that regular revision would occur and that Ireland, Scotland and Wales would eventually be covered.

Recently two revised volumes have been published: *The Buildings of England, Lincolnshire* by Nikolaus Pevsner and John Harris revised by Nicholas Antram; and *The Buildings of England, Devon* by Bridget Cherry and Nikolaus Pevsner. Both are published by Penguin Books, £20. A third new Pevsner has also just appeared, dedicated in timely fashion to Glasgow. This does not, of course bear Pevsner's name – it is by Elizabeth Williamson, Anne Riches and Malcolm Higgs and is published as *The Buildings of Scotland* in association with The National Trust for Scotland, also £20.

Devon is the third largest English county, and when Pevsner and his wife toured it in their Morris Minor in 1949 they thought it merited the two volume Pevsner treatment. Today the revisers have merged North and South into one volume, and in their introduction they chronicle the recent high rate of population growth (19 per cent in the last 30 years); the arrival of the motorways and destructive inner ring roads and car parks; waves of retirement homes; and casual treatment of some seaside towns. But there are many positive aspects to the changing nature of the county. There is a great deal of new historical research: there is more interest in the landscape and the history of early settlements and rural buildings; and there has, of course, been an explosion of interest in things Regency and Victorian.

The Devon volume has many new improvements. There are more maps and plans, there is an excellent list of further reading and a new feature, the list of residents and patrons. I feel that the sacrifice of the glossary is a mistake. It was always useful to check on the real meaning of sharawaggi and to know the difference between spires and speres. Possibilities for one-upmanship have been much diminished by the removal of this useful source of factual erudition. But it is a minor loss compared with the gains. The 20th century houses in Devon receive good coverage, from Lutyens's Castle Drogo to the work of William Lescaze at Dartington. It is hard to improve upon, "compelling abrupt sublimity" as a description of Castle Drogo.

The cottage flourished in the mild climate of Devon and one extreme example, A la Ronde at Exmouth, receives appropriate and approving coverage. This is an example of many houses in Devon which have been diligently and lovingly maintained, often against the odds, by private owners. Now A la Ronde is for sale and is likely to be acquired by The National Trust with help from the National Memorial Heritage Fund. The house is endearingly eccentric, being a sixteen sided plan that the two Misses Parminter built in 1798 to remind them of San Vitale in Ravenna. It is the survival of the interior that is so remarkable, with all its decoration made by the cousins in shells and feathers.

The ladies of Llangollen were another pair who dedicated themselves to building the modest ideas of the Picturesque, but A la Ronde is a unique survival and deserves to be lovingly preserved in aspic and not made too accessible by the National Trust. Its acquisition of the property should render unnecessary any of the proposed development around the house which would wreck the artful rusticity of the place. Perhaps the Trust will thatch it again...?

Pevsner has played an important part in the preservation of our architctural heritage by providing factual evidence and cataloguing expertise to support sentiment. However, Pevsner was also a dogmatic Modernist, and his selection of 20th century buildings followed what he saw as the movements of the spirit of the age. Some of his followers are also a bit stuck in that old groove, but in the Lincolnshire volume I was struck by a willingness (presumably by Nick Antram) to acknowledge the value of the continuity of the conservative tradition.

But Antram has to admit that conservation does not triumph in Lincolnshire. There are two main problems. The rising number of redundant churches – there were 73 in 1989 of which 20 have been demolished – and the creeping suburbanisation of the villages. He is right to point out the remorseless increase in "hopelessly insensitive additions" to individual buildings. This is true all over the country and must be the fruit of poor architectural education and spreading visual illiteracy.

Lincolnshire is a highly enjoyable volume that often has the virtue of direct and personal responses to the buildings. It remains a relatively secret county with many architectural wonders. What is Siena Town Hall doing in Grimsby Docks in the form of J.W. Wild's Dock Tower of 1851? How many people see Grimsthorpe Castle, where the Great Hall by Vanbrugh is one of the greatest rooms in England? The madness of Harlaxton Manor, built in the 1830's as a palace for a bachelor, still dazzles with its orchestrated grandeur designed to impress. So thorough and intriguing is this volume that I was seriously tempted to take a holiday in Lincolnshire and travel with Pevsner – the enlightened cicerone and subtle educator.

PROMENADE CONCERTS

Davis returning to a former age

Royal Albert Hall, Radio 3, BBC2

The 96th season of Henry Wood Promenade Concerts opened on Friday. There is no theme this year and no excursions to other venues, save for a sally across the road into Kensington Gardens for a steel band concert during the Notting Hill Carnival. The sense of a return to a former age of Proms is reinforced by the programming, which seems more conservative than of late – fewer novelties (though there is the statutory flush of commissions), more emphasis on the repertory staples.

One recent tradition at least has been preserved. During the the last decade the season has always begun with a major choral and orchestral work, and so it was on Friday, with Andrew Davis conducting Mahler's Second Symphony with the BBC Symphony Orchestra and the choruses of the BBC Symphony and the London Philharmonic, an event dedicated to the memory of Davis's predecessor as the BBCSO's Chief Conductor John Pritchard, who died last December.

It was a suitably stirring, suitably evocative occasion; one remembers Pritchard conducting the same orchestra in a typically relaxed version of the Resurrection Symphony a couple of seasons back, and the svelte, unfussy outlines of Davis's reading shared some common ground with that approach.

The lack of *grand guignol* was welcome – a Ländler lurching less cumbrously than often, a scherzo moving with grace and wit – though the first movement took a while to catch fire.

There ought to be more terror in the opening shudders than Davis allowed, a closer sense of the apocalypse, and while he pulled together the threads of that sprawling frame with confidence, the drama was consistently set in a low key, and random imprecisions in the orchestral playing took the edge from some of the climaxes. Yet the final pair of movements was steered to a genuinely emphatic conclusion, without ever appearing to inject spurious excitement; everything added seemed natural, considered, and thoroughly musical. Davis we know to be a fine Straussian, and his Mahler, if not yet exceptional, has done all its groundwork, and can only gain in allure and intensity.

In one respect at least this performance was truly exceptional: in its pair of soloists, Margaret Price and Anne-Sofie von Otter, the symphony was graced with singing of perfect poise and intelligence. Von Otter's refusal to cream all the emotional extremes from *Urlicht* but to deliver it with sustained seriousness profoundly enhanced what can be one of the symphony's bathetic sections, while the sound of Price's limpid soprano soaring over the choral textures in the finale brought frissons all of its own.

Andrew Clements

Less grandiose concert

Though the Bournemouth Symphony took on extra players for some of their programme, the Saturday Prom was much less grandiose. Even though it included César Franck's D minor Symphony: for Andrew Litton is not a conductor to make anything sound grandiose, preferring alertness and a light touch instead. His Franck was set out in crisp contrasts, not in Brucknerian blocks; the tunes got full value, but were not milked – the *cor anglais* in the Allegretto was lyrically steady, not overwrought, and the buoyant Finale did not whoop.

If this symphony can sound more imposingly sombre, it usually risks flatulence too. Litton's civilised reading steered safely between the well-known reefs, and the result was quite inspiriting. Again in the *Till Eulenspiegel* of Strauss, he kept a discreet bridle on the heftiest climaxes, but also let the many chamber-music touches show to advantage; it was a performance of engaging wit. There was less to be done for *The Happy Forest*, a forgettable nymphs-and-satyrs piece by Arnold Bax, but Litton suggested at least that there might be a decent little ballet in it.

The young Korean pianist Ju Hee Suh was the soloist in Liszt's A major Concerto. Beautiful technical finish, great breadth of sound (reminiscent of her teacher Jorge Bolet), pure musical intentions: I wanted just a bit more frank narcissism, some "Look at me!" preening. Liszt would never have denied himself that, and the piece does need some flashy filling-out.

David Murray

John Lill

Bishopsgate Hall

Lill is a doughty performer, which is just as well: for it fell to him, last week, to do the taxing stint of lunchtime piano-recitals which has become an annual fixture of the City of London Festival. Though it always looks attractive on paper, it seems a pretty thankless task.

The weather often swelters, as it did last week; and the audiences are rarely anything like as large as they should be, especially not for cushioning the acoustic glare of the Bishopsgate Hall.

That was brought home to me – literally – on Friday, when I happened to hear part of the Lill recital I'd just come from, broadcast as a delayed relay on Radio 3.

Without that domestic revelation, I should have written that in Rakhmaninov's op. 39 *Etudes Tableaux* the pianist had sounded dogged and a bit dull (except in the A minor "Dies irae" one, which was imagined in rich depth); that his over-emphatic bass line – not, generally, an asset in this composer – paid diminishing returns, whilst denying the proper sheen to Rakhmaninov's virtuoso right-hand fancies. But I might have said analogous things about Lill's account of the Prokofiev Sixth Sonata (though that big-boned piece did offer more scope to his sturdy architectural sense); and on the Radio 3 evidence, that would have been seriously unjust.

With a sparse audience the Bishopsgate acoustic is at once echoey and shallow, and dynamic gradations are flattened out. The BBC microphones were virtually snuggled up to the piano: it was a shock to discover at home how much subtler and better-pointed Lill's interpretative details were in Prokofiev, and how superior the balance, to what we heard on the spot. Ungenerous souls may comment that that's what sound-engineers are *for*, but the plain fact was that a precise dimension of feeling had been muzzily swallowed up in the "live" sound-halo.

It was easy, then, to imagine how much had been concealed in Lill's Rakhmaninov – even while suspecting that he's too loyal to soberly-argued Classical and Romantic ideals ever to make the most of that composer's spontaneous dramatic surges, or of Prokofiev's wilful fractures. (From Monday to Thursday he'd been performing his "natural" repertoire; Friday was his sole foray into the 20th century.) Another year, it would be nice to find that Bishopsgate had acquired tapestries or other dense hangings, or foam-rubber seats; or *anything* that might rescue its flat, scraggy gymnasium-sound.

David Murray

Royal nightdress for sale

Queen Victoria's nightdress and some of her underclothing are included in a sale today of one of the largest and best preserved collections of textiles and garments from the Royal household. Fifty items in the sale at Tunbridge Wells, Kent, were given to the Queen's dresser, Mrs E. M. A. Roberts, more than 100 years ago.

The nightdress is worked in white fine cotton, embroidered with a crown, the initials VR and the number 24. A chemise once worn by the Queen and a pair of her silk stockings are among other items on offer, and they also are identified with a crown and numbers.

Auctioneer Michael Shortall said museums and American collectors have already expressed interest in the sale at the Spa Hotel.

"I believe it is the first time such a large collection of royal textiles and clothing has come up for auction."

Also in the sale are several pairs of shoes which belonged to the Queen's children; two bonnets, in silk and velvet; court playing cards with hand-painted portraits of the Queen and other members of the Royal Family; a child's flannelette underskirt and bodice, with a "nappy square"; an inscribed bracelet worn by the baby Prince of Wales in 1864; a pair of cotton knickers believed to have been worn by Prince Arthur and samples from embroidery by the Queen's daughters.

ARTS GUIDE

July 20-26

MUSIC

London

London Bach Orchestra conducted by Nicholas Kraemer plays the six Brandenburg Concerti (Tues). Barbican Centre (071-638-8891).

The Philharmonia Orchestra and Chorus conducted by Yuri Simonov play Verdi's Requiem (Wed) as part of the City of London Festival. St Paul's Cathedral. (071-248-4260).

London Chamber Orchestra plays Baroque. Handel, Albinoni, Pachbel, Vivaldi (Wed). Queen Elizabeth Hall, South Bank Centre (071-928-8800).

The Matrix Ensemble coducted by Robert Ziegler, with soloists including Adrian Thompson, Paul Harrhy, Patrick Donnelly and Peter Rose. Stravinsky, Milhaud and Falla. Queen Elizabeth Hall (Thur) (071-928-8800).

Paris

Festival Estival.Andre Isoir (organ). Franck, Benoist, Saint-Saens, Guilmant (Mon). Saint-Germain-des-Pres church. **Orchestre des Jeunes des Pays Bas** conducted by Gaetano Delogu.Glinka, Shostakovich, Brahms (Tue). Auditorium Des Halles. **Vocal Ensemble Sagittarius** and Consort de Violes O. Gibbonsconducted by Michel Laplenie. Demantius, Schein, Schütz (Wed).Saint-Severin church. **Quatuor de Violes Orlando Gibbons.** Byrd, Gibbons, Lenot, Purcell (Thur). Notre-Dame-du-Travail church, 59 Rue Vercingetorix, Metro Pernety (43049601).

Montpellier

Montpellier and Radio France International Festival stages 80 concerts, among them a Franck Martin oratorio, Martucci's *Chants du Souvenir*, pianists Victoria Postnikova, Firkusny, Kvapil, Chiu and 15 jazz concerts. Ends Aug 2 (67523433).

Brussels

Marc Grauwels (flute) Daniel Blumenthal (piano), Lieve Schuermans (flute) playing Schubert, Ravel, Debussy, Mozart, Bizet, Verdi (Wed). Chapelle des Brigittines (513 89 40).

Weimar

Cultural Festival (July 16-Aug 11). Weimar, the centre of German classical culture, is staging the first pan-German festival, profits from which will go to be reconstruction of this badly neglected city. Directed by Karl Steff-Wolfsjaeger, the festival is staged in the original houses of Goethe, Schiller, Liszt and Bach, who are the central themes of the four week events. Among the artists appearing are Eva Lind, Alan Titus and the Bavarian Radio Orchestra, under Ralf Weikert, Rudolf Buchbidner, Barry Douglas, Alexis Weissenberg, Will Quadflieg, Helmut Lohner and the Weimar Theatre Ensemble (0228/693969; fax 695158).

Schleswig Holstein Festival

This year's 5th Schleswig Holstein festival, initiated and directed by Justus Frantz is an important and very successful event for this neglected region and has been enlarged to nearly 180 concerts in 32 different venues. World class musicians will be performing in towns and villages from Flensburg in the north to Lueneburg in the south,in manor houses, barns, churches, concert halls, riding stables and castles. There will also be master classes.The festival's own orchestra, with 120 members from 22 different countries, will train throughout the summer in Salzau with 5 different conductors, Sir Georg Solti, Christoph Eschenbach, Jiri Belohlavak, Paavo Berglund and Semyon Bychko and they will be performing 10 concerts during this festival. Soloists include Alban Berg Quartet, Igor Oistrach, Natalia Gutman: Boris Pergamenschikow, Heinrich Schiff, Olaf Baer, Dietrich Fischer-Dieskau, Hermann Prey, Peter Schreier, Arleen Auger, Christa Ludwig, Rudolf Buchbinder, Barry Douglas: Katia and Marielle Labeque, Murray Perahia and James Galway. The programme ranges from Bach to Beethoven, Brahms to Bruckner, Mahler to Mozart, Tchaickovsky to contemporary composers. Until August 19. Information: Kartenzentrale Schleswig Holstein Musik Festival Postfach 3840, 2300 Kiel Tel (0431) 567080.

Barcelona

Grec 90: Barcelona summer festival. Trio de Barcelona. Schubert, O. Messiaen (Tues). Plaça del Rei (318 25 26).

Ravenna

Ravenna festival Scala Philharmonic Orchestra conducted by Lorin Maazel. Schubert's 'unfinished' symphony and Beethoven's 6th (Tues). Rocca Brancaleone. Festival ends July 31. (32577)

New York

Mostly Mozart Festival. Emerson Quartet with Carol Wincenc (flute) and Misha Dichter (piano), Mozart, Schumann, Dvorak (Mon). Avery Fisher Hall, Lincoln Center (874 6770).

Mostly Mozart Festival Orchestra conducted by Mark Elder with Barry Douglas (piano) and Richard Stoltzman (clarinet). Janacek, Mozart, Haydn (Tue, Wed). Avery Fisher Hall, Lincoln Center (874 6770).

Tokyo String Quartet with Richard Emanuel Ax (piano) and Alexander String Quartet. Mozart, Schumann, Mendelssohn (Thur). Avery Fisher Hall, Lincoln Center (874 6770).

St Luke's Chamber Ensemble. Vivaldi, Martinu, Schubert (Thur). Caramoor Festival, Katonah (914 232 1252).

Chicago

Ravinia Festival. Leon Fleisher (piano) and Theater Chamber Players of Kennedy Center. Takacs, Robert Saxton, Bach/Brahms, Scriabin, Blumenfeld, Strauss/Godovsky, Korngold (Tue). Highland Park (728 4642).

Chicago Symphony Orchestra conducted by Gianliugi Gelmetti with Leon Fleisher (piano). Ravel (Thur). Highland Park (728 4642).

Tokyo

Samulnori and Kodo. Drummers from South Korea and Japan. Shinjuku Koma Theatre (Mon) (202 8118).

FINANCIAL TIMES

NUMBER ONE SOUTHWARK BRIDGE, LONDON SE1 9HL
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Monday July 23 1990

Service to small investor

FRAGMENTATION used to be the bogey word of the London Stock Exchange. Until the Big Bang restructuring of 1986 the emphasis was on a single market with a centralised order flow, and a common membership for firms straddling the widest range of clients.

Now the façade of unity is cracking. The main commercial drive of the International Stock Exchange is carrying it towards the business done in leading international equities by institutional investors. There are accusations that such an emphasis is causing a neglect of the interests both of smaller domestic companies, with stocks allocated to the beta and gamma categories, and of small, personal clients. So worried are private client broking firms of the ISE's apparent failure to represent their interests that a number of them plan to set up their own trade body called the Association of Private Client Investment Managers and Stockbrokers (APCIMS).

Meanwhile there have been two separate proposals to establish distinct markets to serve a base of smaller clients. One, emanating from the specialist small company market maker Winterflood Securities, focuses upon improving the facilities for trading shares of small companies; the other, promoted by the execution-only stockbroker Sharelink, is intended to make it easier for small investors to trade shares. The proposals are aimed in different directions, but they share the common factor that an apparent polarisation has developed between the mainstream business of the ISE and its grassroots services.

The decline of the private investor in UK equities has been a long-term trend caused by several factors including tax, but with the proportion of shares owned by individual investors down from over 50 per cent 30 years ago to under 20 per cent today the trend is thought to have been exaggerated by dealing obstacles.

Serious decline

As for the problems in the small company market, there is a connection in that private investors are often seen as natural holders of the shares of small, possibly local, companies. But stockbrokers have noticed a serious decline in their ability to handle even modest-sized bargains in small company shares, especially within the past year or so.

The matter has come to a head with the recent closure of small company market makers such as Stock Beech and Kitcat & Aitken. Brokers find it hard to buy or sell shares of gamma stocks without driving prices against them. Institutional investors in these smaller companies have often been stranded without significant liquidity. The County NatWest Smaller Companies Index has underperformed the FT-SE Index of 100 market leaders by 25 per cent over the past year.

Market mechanisms

Large numbers of companies have traditionally been publicly quoted in the UK – some 2,035 domestic companies are at present listed in London, against 460 in Paris and some 630 in Germany as a whole. There is concern that, unless London's market mechanisms are improved, disaffected small companies could withdraw in increasing numbers.

It would be a pity if the debate were to get bogged down in technical debates about the advantages of order-driven, or matching, market systems rather than quote-driven arrangements with competing market makers such as the SEAQ system which the ISE has been using since 1976. The Exchange must come to terms with the commercial implications of its chosen marketing focus upon alpha stocks. Already the hiving off of the traded options market to Liffe, the financial futures exchange, has shown that the ISE, under its new chairman and chief executive, is willing to live with a greater diversity of markets. Now its positive response to the formation of APCIMS shows that it recognises the limitations of its ability to service the smaller end of the client spectrum.

Even at the time it was recognised that Big Bang was a beginning rather than an end. New markets or trade associations may now have an important role to play. Fragmentation need no longer be a dirty word, especially if it is translated to mean specialisation.

Hands off Kuwait

THE conventions of Arab diplomacy were rudely brushed aside last week, in the unexpected and dangerous border dispute between Iraq and Kuwait. Instead of the usual protestations of brotherly love and the elliptical references to problems best not aired in public, each side openly and bitterly accused the other by name.

First Iraq condemned Kuwait and the United Arab Emirates for producing more oil than permitted by their Opec quotas. That was true, although both had agreed – and started to implement – cuts in oil output to pave the way for this week's Opec meeting in Geneva. The Iraqi Government then accused Kuwait of violating the disputed Kuwait-Iraq border and stealing $2.4bn of oil from Iraqi fields. This last accusation was implausible from the start, and Kuwait insisted yesterday that the reality was the other way round: Iraq had tried to drill wells inside Kuwait. "Iraq," Kuwait said in an extraordinarily blunt message to the Arab League, "has a rich record of violations of Kuwaiti territory, a record backed by facts."

Such honesty, after years of discreet diplomacy, serves to underline the seriousness of the current crisis. President Saddam Hussein's bellicose rhetoric has revived the fears of his Gulf neighbours that he will turn his political ambitions, backed by the Arab world's largest army, away from Iran and Israel towards softer targets to the south.

Expansionist aims

Iraq covets Kuwait's territory and the oil that lies beneath it, dating its claims back to the days of the Ottoman empire. At the time of Kuwaiti independence in 1961, British troops and an Arab League force were sent to Kuwait to deter the expansionist aims of the Iraqi regime of General Kassem. Even after the 1988 Gulf war ceasefire, Iraqi troops are said to have crossed illegally into Kuwait at least once. Sheikh Saad al-Abdullah al-Salem al-Sabah, Kuwait's Crown Prince and Prime Minister, paid a much-heralded visit to Baghdad last year to sort out the border problem once and for all, but he returned empty-handed.

It was precisely to deter the kind of threat now posed by Iraq that Saudi Arabia, Kuwait, Oman, the UAE, Qatar, and Bahrain established the Gulf Co-operation Council in 1981, while Iraq was preoccupied with its hostilities against Iran. The GCC states, along with the Arab League in Tunis, have therefore been among the main ports of call for envoys despatched by Kuwait's Emir, Sheikh Jaber al-Ahmad al-Sabah.

Urgent mediation

Relations between Kuwait and Saudi Arabia, the GCC's principal power, have recently been lukewarm, but the indications are that King Fahd has responded with the necessary urgency to the challenge of the latest Gulf crisis. The King, who is himself thought to be uneasy about Iraqi ambitions, quickly telephoned both President Saddam and Sheikh Jaber, and then sent his foreign minister in an attempt to mediate.

It is appropriate that the GCC should intervene diplomatically to ease the tensions over the Kuwait-Iraq border, and equally appropriate that the Arab League – whose secretary-general is also touring the region – should mediate in this regional dispute and eventually prepare the ground for a final settlement of the frontier.

So far Kuwait has not appealed to the UN Security Council for assistance. That should not prevent its members from telling Iraq politely but firmly at an early stage that Iraqi attempts to bully Kuwait are undesirable, and that any seizure of territory – it may even have happened already to a limited extent – would be unacceptable. A joint statement by the five permanent members, which developed the habit of working together in their efforts to end the Iran-Iraq war (much appreciated by Iraq at the time), would be particularly appropriate. President Saddam should not be antagonised, but he should be left in no doubt that the world community is united in its determination to confine his ambitions within Iraq's internationally accepted borders.

A North American free trade zone may hold the key to a new direction for Latin America, writes **Robert Graham**

A continent in search of a role

Latin American leaders have been watching the fast-moving changes in the international strategic order with a mixture of fear and fascination. Fear predominates.

After a decade of lost growth and still burdened by a huge $420bn debt overhang, they see the region being ignored as the world map is redrawn for the 21st century. Leaders such as President Carlos Andres Perez of Venezuela warn that Europe is becoming absorbed in eastern Europe and the redefinition of the old cold war frontiers. They are afraid the US – with dwindling strategic interests in Latin America – will turn in on itself.

According to this scenario, Latin America will become subject to a policy of benign neglect from Washington, ignored by Europe and of only marginal concern to Japan. Yet this gloomy vision has also served to concentrate minds and reshape ideas.

"We have to stop this process of self-flagellation and think positively of where we are going," says Mr Joao Clemente Baena Soares, the Brazilian secretary-general of the Organisation of American States. Formed in 1948 to bind Latin American nations into an alliance with the US against the spread of communism in the Americas, the OAS now seems outdated, and this in turn epitomises the need to find a new direction for the region.

Not since the Second World War has Latin America had to face so many fundamental questions. These touch on such central issues as the shape of hemispheric alliances, the nature of security interests, the direction of trade, the viability of regional blocks and the practicality of the old Bolivarian dream – integration. Arguably, for the first time since Latin American states began to acquire their independence from Spain (and Portugal) more than 150 years ago, the region is being forced to define itself.

Against this background, the unexpected announcement of President George Bush's "Enterprise for the Americas" initiative on June 28 acquires enormous significance. He is proposing a new, broadly based partnership with incentives "to reinforce Latin America's growing recognition that free market reform is the key to sustained growth and political stability." The mainstays of this new relationship will be expanded trade, liberalised investment and help with debt.

A new generation of democratically-elected leaders has been quick to exploit easier international contacts

Mutual security, therefore, will be achieved through prosperity which is guaranteed, not by military alliances and large amounts of aid as before, but through democratic government and sound macro-economic policies based on the laws of the marketplace. The long-term goal, according to President Bush, could be "a time when all are equal partners in a free trade zone stretching from the port of Anchorage to Tierra del Fuego." Significantly, his announcement came less than three weeks after he and President Carlos Salinas de Gortari of Mexico had agreed to work towards the creation of a North American free trade area.

Even a year ago, the idea of a North American free trade area encompassing Canada, Mexico and the US seemed pure futurology. Now it is accepted as an eventual reality. Pushing this concept so quickly to embrace the whole of the Americas may seem fanciful, but it underlines the speed at which ideas are evolving. It also raises intriguing questions about the pace at which the US itself is, or will become, hispanicised.

The vagueness of President Bush's free trade proposal suggests he and his advisers have scarcely got to the drawing board. The Bush Administration may well be laying down self-interested markers in case the world divides into new trading blocs. Latin America, after all, has a population of more than 400m and a GDP equivalent to two-thirds that of eastern Europe and the Soviet Union. If the region, with its little tapped natural resources, recovers the growth of the 1960s and 1970s, its potential will as great as that of eastern Europe.

Nevertheless, Washington is beginning to drop the negative posture it adopted towards Latin America throughout the 1980s as it sees a fresh wind of pragmatism sweeping the continent. Already the economies of Bolivia, Chile, Colombia, Mexico, Uruguay and Venezuela have improved to the extent where they can look beyond the debt crisis.

In telephone calls to President Bush, Latin American leaders have responded positively but with caution. One Latin American presidential adviser observed: "Just when we were feeling like jilted suitors, Bush tells us that Washington cares about Latin America. This psychologically is very important. Even if the Americans are thinking of their own interests first and deliver little of what they are promising at least they have given us a framework in which to operate."

Until recently responsible Latin Americans devoted remarkably little constructive thought to where and how their continent fitted into the world order. Almost without exception, the countries of the region looked to North America and western Europe, with their backs turned on Japan and the rest of Asia.

The former Spanish colonies tended naturally to try to emulate the development model of the US and came almost instinctively within the general security umbrella of Washington. Indeed, since the turn of the century, the gravitational pull of the US on Latin America has never been in dispute – not even by that most redoubtable of protagonists, President Fidel Castro of Cuba. The political argument has turned on the extent to which US influence should be allowed to interfere in domestic affairs and dictate policy for the hemisphere.

At the emotional level, Latin America continued to cling to the belief of close ties with the Old World long after this ceased to be reflected either in the level of trade or of political contacts. Trade with Europe, as a percentage of Latin America's global trade, has declined by more than a third over the past two decades to about 15 per cent. The European background of most Latin American élites fostered this illusion, which was only shattered when the latter realised the seriousness of the EC's commitment to the 1992 single market.

"It was a shock for many governments to discover that 1992 – the year celebrating the 500th anniversary of the discovery of the New World – could also be a year in which Europe put up the barriers against us, including Spain which talked so much of *hispanidad* (the community of Spanish-speaking nations)," commented a Latin American diplomat.

Carlos Salinas

Fernando Collor

Carlos Andres Perez

Alberto Fujimori

Patricio Aylwin

Carlos Menem

Population (m) 402.43		GDP (US$bn) 856.43		Debt (US$bn) 422.10	
Argentina	31.93	Argentina	54.29	Argentina	61.69
Brazil	147.40	Brazil	409.30	Brazil	108.08
Mexico	84.27	Mexico	210.06	Mexico	102.85

Source: EIU, IMF

In their search to reformulate the region's internal and external relations, Latin American leaders have received considerable intellectual stimulus from a re-vitalised Inter-American Development Bank and Mr Enrique Iglesias, its Uruguayan president. His basic message is: "Latin America has to do more to help itself." This entails harmonisation of macro-economic policy, identifying common interests, cutting internal tariff barriers, making the state machine more efficient, and raising the quality of the investment climate. In his tireless behind-the-scenes efforts, he has become a sort of informal finance and trade minister for Latin America as a whole.

Increasingly, the region's interests are defined in trade terms. This is a natural consequence of the failure of the once-fashionable import substitution model of development and the adoption of export-led growth, a move which has been actively encouraged by World Bank funding for restructuring trade policies. Meanwhile, the need to attract foreign investment, in the absence of fresh inflows from the debt-wary commercial banks, has also eroded many of the old stigmas attached to foreign capital.

Nations of the size of Mexico only joined the General Agreement on Tariffs and Trade in 1986; but in the past five years active Latin American membership of the Gatt has helped stimulate a liberalisation of trade as well as encourage the idea of participation in the global economy. The fact that the current round of trade liberalisation negotiations began in, and is named after, Uruguay, underlines the region's awareness of the importance of trade issues. Of all international forums, the Gatt is now the one where Latin American nations are most actively pursuing their common interests.

The awakening of Latin American to the outside world has also flowed naturally from the disappearance over the past 10 years of military governments. A new generation of democratically-elected leaders has been quick to exploit the greater ease of international contacts that comes from political respectability. These leaders, especially in the important countries such as Brazil and Mexico, are not bound by past prejudice in dealing with the US. Nor are they bound by the old anti-communist security considerations which coloured the views of previous leaders, civil and military. Many of the top officials attended the same US universities as their Washington counterparts or have spent periods of exile in Europe.

Equally the new élites are anxious to understand Japan and raise the level of Japanese assistance, investment and trade. One hundred years ago, the Japanese connection comprised cheap agricultural labour imported into countries like Brazil and Peru. Today it is evident in the form of a Mexican president whose children go to a Japanese school; a president-elect in Peru who is the son of Japanese immigrants and a Chilean economy minister with Japanese grandparents. These same people are curious to analyse why the Asian newly industrialised countries have come from behind and overtaken them in less than 20 years. Today, Taiwan and South Korea's annual exports together match Latin America's combined total of $110bn.

This awareness of the global economy means that opportunities will be sought both more aggressively and on a broader front. Nevertheless, since 40 per cent of all the region's trade is conducted with the US, which is also the most geographically convenient market, policy initiatives will be concentrated there. Washington's seriousness in establishing closer ties between its own highly advanced economy and the middle-income newly-industrialised economies of Latin America will be crucial.

Within the region, the US is suspected of being serious only about deepening its relations with Mexico. A North American Free Trade Area certainly risks pushing Mexico into a different orbit and separating it from its fellow Latins. Already as a precaution against being downgraded in Washington's list of priorities, Central American presidents have revived the 1960s idea of a common market that would include Panama.

Colombia and Venezuela, with important oil and coal resources, have begun to form an axis with Mexico and could eventually come in on the latter's coat-tails with North America. But nothing will move until the shape of Mexican relations with the US becomes more clearly defined. This will be the model for all future north/south co-operation.

The difficulties of moulding two such unequal economies into a free-trade area inevitably has made South American countries dubious of such an initiative extending south of the Rio Grande. Rather, they believe that they will be left to their own devices with only rhetoric from Washington.

Such a prospect explains this month's agreement between the Presidents of Brazil and Argentina to accelerate plans for their own common market starting in 1994. They hope that a common market embracing the other southern cone neighbours – Chile, Paraguay and Uruguay – would provide a new dynamic for growth and balance out the Mexican-US developments. This would also provide a framework for an eventual free trade area for the Americas. Such commitments, of course, are meaningless without either Argentina or Brazil stabilising their economies and recovering growth. The jury is still out on whether this will happen; but the pessimism of the 1980s has gone.

OBSERVER

A major publication

■ The Treasury today reveals its new baby – the first edition of a periodical on Government economic policy – with a predictable absence of fuss.

Officials deny that the Treasury Bulletin, a slim azure paperback, is a spoiling operation against the Bank of England's own Quarterly Bulletin – which has been scoured for nuggets about policy for almost 20 years.

Slightly cheaper at £5.50, the Treasury Bulletin is smaller, shorter, and more lightweight than the Bank's Bulletin. And it is only going to appear three times a year, so as to preserve pre-Budget purdah around Easter.

But it has the attraction of a foreword – no more than a short plug really – by the Chancellor, in which he explains that "all governments have a duty to promote responsible and informed debate on the issues of the day." According to the first edition of the Treasury Bulletin, today's key issues are official statistics, EMU, and the central government borrowing requirement. Undoubtedly a collector's item.

Slow Britons

■ The complaint that British business is a laggard in the developing economies of eastern Europe grows louder with every post-communist minister who visits. Mrs Vlasta Stepova, the Czech Minister for Trade and Tourism, has been in Britain talking to business people, hoteliers and tourist bodies: it pained her, as an anglophile, to see most of the action going to the German speaking countries. "They are the quickest, the first and the cheapest", she says, forecasting that VW will tie up a deal with Skoda by the end of the year. Her government wants balanced western investment but needs more interest from Britain.

She was chosen for her post, she said, because she spoke out before the November "velvet revolution" on the growing black economy. She estimated that Czechoslovaks gave "presents" to doctors for more than 90 per cent of treatment – making the country's medical service one of the most private in the world.

Block capitals

■ Richard von Weizsäcker, the West German President, has angered many German federalists by coming out in unusually outspoken fashion for the restoration of Berlin as the capital of a united Germany. Although moving the capital from Bonn could take several years, he believes that the future united German parliament should decide on the question "as soon as possible."

"I am not denigrating the human and political atmosphere of Bonn, simply summing up the facts . . . when I say that there, one is incomparably further separated from the necessary realities than in Berlin," he argued in a ceremony in Berlin a few weeks ago. He had just been awarded honorary citizenship of the city.

Chancellor Kohl also has a soft spot for Berlin, but wants to bide his time. Last week, he said he thought von Weizsäcker had gone too far in his remarks. He thinks that a combined solution is possible, with Berlin as capital (and residence of the head of state) while Bonn remains the seat of government.

Some of Kohl's aides have now come up with a series of counter-arguments for Bonn. And they draw on no less an authority than the President himself. In a speech in Bonn in May last year, von Weizsäcker said that the atmosphere in the small-town capital was anything but rarified. Eulogistically, he described the city as "the centre of our country's political life and political will."

He advised his listeners to speak out about why Bonn was "qualified" to be the capital. Von Weizsäcker made his 1989 comments after receiving honorary citizenship of Bonn.

"It's the male gene in him."

Design flaws

■ The effect of recent defections was visible last week when Italian designers showed their winter collections in an air-conditioned arabian tent in Rome's Borghese gardens. Gianfranco Ferre has now taken over from Bohan as chief designer at Dior, while Valentino snubs the whole thing by showing only in Paris.

He did, however, hold open house at his pompously-named Accademia Valentino, which opened in Rome last month with a remarkable collection of Cartier jewellery, clocks and watches (including the Duchess of Windsor's tiger-handled lorgnettes, Merle Oberon's emerald and diamond necklace and Randolph Churchill's gold cigarette-case). The proceeds were to help research into AIDS.

The distinguished designer Moschino sent the whole thing up, having his models led on by a comical pantomime dame dressed as Queen Elizabeth II while a motley collection of actresses and television personalities chosen by other designers as mascots proved that only trained models should attempt the slow descent of staircases in public.

Man's man

■ The election last week of a president of Tynwald, the Manx arliament, from within its members marks a further stage in the island's progression to greater autonomy.

The Isle of Man, in the Irish Sea, is a Crown dependency but has its own 1,000-year-old parliament. For the past 232 years Tynwald has been presided over by the island's Governor, who is the Queen's representative.

Members of Tynwald chose Sir Charles Kerruish as their first president for a five year term. The 73-year-old Sir Charles is the longest serving member of the Manx Government, first elected in 1946.

Sir Charles's direct and forthright manner is well known at the Home Office where he has consistently thumped the table on the Isle of Man's behalf. He feels increased affluence in the island over the past few years has dulled the will of many fellow islanders to fight for more constitutional reform. But Sir Charles will never relinquish his ideal of a self-governing Isle of Man, with the UK responsible only for external affairs.

No comment

■ From the monthly newsletter of a Berkshire men's club: "Our speaker on Thursday, June 14, was a man who needed no introduction. He failed to turn up."

Plugging in to a double-edged prospect

As Britain's electricity companies queue up for privatisation, David Thomas looks at the winners and losers

This week is set to be a crowded one for electricity privatisation – one of the longest gestating of all the Government's economic reforms.

Ministers are certain to come under pressure to clarify their intentions for the sale of PowerGen, one of the two generators heading for privatisation in England and Wales. Fearful of the stock market's ability to absorb the entire privatisation issue, they have been considering whether to sell PowerGen to a single bidder, such as Hanson, the acquisitive conglomerate.

The Government will also announce today the amount of debt which each of the regional electricity companies – scheduled to be sold this autumn – will take into the private sector.

On Thursday, National Power will unveil its final report as a nationalised industry. The largest of the electricity companies to be sold, it will disclose huge provisions to cover job losses and the other costs of moving into the private sector. A week later PowerGen will follow suit. Both are slated to be sold early next year. Scotland's Hydro Electric and Scottish Power will follow next summer, completing the privatisation process.

A small army of merchant bankers is working on the privatisation prospectuses. Will anyone mourn the nationalised system which they are quietly burying? What are the prospects for the Government's radical attempt to inject competition into an industry viewed as a natural monopoly? Consider two views:

Mr John Wakeham, Energy Secretary: "We are already seeing the beginning of a dramatic metamorphosis: a change from what was, until recently, a monolithic structure towards a more competitive, a more diverse, and a more environmentally conscious industry – and one in which a growing number of customers will be given real choice."

Mr Stephen Andrews, director of the Association of Independent Electricity Producers: government ministers have "failed to recognise the power of the monopoly. In accommodating the needs of the Central Electricity Generating Board's successors (National Power and PowerGen), they may well have postponed the expansion of independent generation by which they set so much store."

That two such starkly different viewpoints could be given at the same energy conference in London this month is a pointer to the uncertainties surrounding this most complex of privatisations. The new electricity companies have been in existence only since April. So has the electricity "pool" or market, universally seen as the fulcrum of the new competitive electricity regime in England and Wales: prices are set in the pool, allowing suppliers and users to buy electricity from generators on a half-hour basis every day.

Yet Mr Wakeham and Mr Andrews share one assumption. The reforms will fail unless they encourage the emergence of a substantial clutch of independent generators to challenge National Power and PowerGen.

The omens so far are mixed. On the one hand, there have been more than a dozen proposals for independent stations. The latest came this month when Texaco, the US-based oil company, unveiled plans for a £450m gas-fired power station of up to 1,100 megawatts in west Wales.

On the other hand, even the Department of Energy accepts that not all these projects will come to fruition. Not all are needed. There is already a surplus of generating capacity and the recession is prompting most analysts to revise downwards their forecasts of electricity demand.

County NatWest WoodMac, the stockbroking firm, recently concluded that no new stations were needed on demand grounds before 1995-96. Nevertheless, it predicted that 3,000-4,000 MW (equivalent to two large stations) of gas-fired capacity might be built to allow old coal-fired stations to close. Yet County NatWest identified 18 new projects, with a total capacity of up to 11,070 megawatts, which have already been proposed.

The independents have an even deeper worry. National Power and PowerGen may crowd them out of the market for environmentally friendly, relatively cheap gas-fired stations – the power-generating technology which looks set to provide most new stations in the 1990s. Both generators have plans to open such stations over the next few years.

Mr Michael Cornish, chief executive of Thames Power, an independent company planning to build a 1,000 MW station at Barking Reach on the Thames, predicted this month that the two established generators would scrap several older stations. This would add to their profits by forcing up the price of electricity, because it would increase the insurance policy which distributors have to pay to maintain enough capacity on the system. Simultaneously, Mr Cornish argued, National Power and PowerGen would discourage entrants by announcing plans to build gas-fired stations.

The regional electricity companies provide one of the best hopes for a counter-weight to the two generators. As the main customers of National Power and PowerGen, the regional companies want to encourage competition: only thus can they maintain pressure on the generators' costs.

Most of the regional companies are considering plans to take stakes in independent projects. Their debt levels may contain clues about their scope for entering independent generation. The regional chairmen pressed the Department of Energy for a relatively light debt burden, partly to allow them to take equity stakes in independent generators.

The precise role of the independent generators may not become clear for several years. Nevertheless, it is already possible to construct a tentative checklist of winners and losers in the new regime. The winners include:

● Large industrial consumers, with a maximum demand of more than one megawatt, are the only electricity customers free to shop around for competitive supplies at present.

Many have benefited from the outbreak of competition between the generators and the regional companies for their custom, with some achieving price cuts of up to 20 per cent.

However, the picture is patchy, not least because of the regulatory limits on the percentage of regional companies' custom which can be taken by the generators. Many large industrial consumers are now effectively locked into their local regional company.

Many observers also question whether the generators – and, in particular, National Power which led the price-cutting – can maintain the new price levels when contracts come up for renegotiation next year.

The very largest customers – those with a maximum demand of more than 10 MW – have not fared so well, because they have lost the benefit of special cross-subsidies under the nationalised regime. There are fears about what will happen to their electricity prices after the one-year price freeze, announced by Mr John Wakeham, Energy Secretary, in February.

● Foreign equipment manufacturers. As in earlier privatisations such as that of British Telecom, foreign manufacturers are picking up many lucrative orders under the new regime.

Asea Brown Boveri, the Swedish-Swiss electrical engineering group, is supplying the gas turbines for National Power's new station at Killingholme on Humberside and for Lakeland Power, the most advanced of the independents. Siemens of West Germany has been chosen for PowerGen's station at Killingholme.

The explanation is simple: they have more experience of building modern combined-cycle gas-fired stations than most British manufacturers. But for every winner, there is a loser – in this case most of the UK equipment industry. It has concentrated on meeting the CEGB's demand for nuclear stations and coal-fired stations, which already seem like relics from a bygone age. Other losers from privatisation include:

● The coal industry. Nationalised British Coal is certain to find the privatisation of the electricity industry, overwhelmingly its biggest customer, a traumatic experience.

It was given some transitional protection by the three-year coal contract with National Power and PowerGen which the Government helped to negotiate. The two generators are committed to taking 70m tonnes of its coal this year and next and 65m tonnes the following year.

However, the prospects for British Coal in the medium term are not good. Besides shifting towards gas, both generators have stressed their wish to import more coal. They have told the Energy Select Committee that their demand for British coal may have almost halved by the year 2003.

● Small consumers. Under the complicated system of contracts put in place by the Government, the cost of bearing the implicit subsidy flowing to British Coal as part of the three-year coal contract was loaded on to small consumers.

The Government has insisted that price rises for household users must not increase by more than inflation over the next two years, following above-inflation rises this year. The fact is that larger industrial users – not domestic consumers – will benefit from any cost savings yielded by privatisation in the early years.

One of the great imponderables will determine whether all consumers will eventually benefit from privatisation: the working of the electricity pool. The job of ensuring that pool prices are not manipulated by National Power and PowerGen will fall on Professor Stephen Littlechild, the industry's regulator, who has given relatively little indication of how he will supervise this complex market.

And finally the taxpayers, are also faced with a double-edged prospect. Charges from privatisation's opponents that the industry is being sold cheap are bound to mount as the Government sets a price to ensure a successful sale.

Yet the taxpayer was ill-served by Whitehall's secretive scrutiny of the electricity industry, particularly in areas such as nuclear power, now to be retained in the public sector. Having a more open industry, with multiple centres of decision-making, should in theory deliver lower costs. Several years at least will be needed before a judgment can be made on whether the reality matches the theory.

LOMBARD

Sovereignty, the EC and Ireland

By John Lloyd

THE MOST urgent problem of sovereignty facing Britain is not the European Community, but Northern Ireland. How deeply the UK enmeshes itself in a greater European state is a matter of argument; the national identity of Northern Ireland is a matter of life and death – and not only there.

The Anglo-Irish Agreement, five years old this November, exacerbated an already fraught situation. It remains curious that its signing caused so few political casualties, when the Community has caused so many. Only Mr Ian Gow, a Treasury minister in 1985, now sits on the back benches because of it. Yet it gave the government of a foreign state an institutionalised purchase on the politics of part of the UK, and gave these rights to a state enjoined by its constitution to annex that part to it. So its involvement in the Agreement can be reasonably supposed to be aimed in part at satisfying this claim.

Mr Peter Brooke, the Northern Ireland Secretary, appears less dogmatic than his predecessor, Mr Tom King, in arguing that the Agreement is Holy Writ. In his attempt to start talks between the Northern Irish political parties on the future of the province, he has hinted that the Agreement could be recast. But he has so far been stymied by Dublin's insistence that the Republic be involved in the earliest stages of these talks. Article 4c of the Agreement can certainly be interpreted as conferring that right. Having achieved leverage, the Irish Government does not want to see it slip away.

If the Agreement were not muddying the waters so much, the longer term trends in Irish politics could be seen as more promising than at any time in the past 20 years. The IRA is now widely regarded, even in the US, as a ruthless terrorist gang. Opinion in Ireland, especially among the young, is shifting slowly but surely away from reflex anti-unionism, and a concomitant insistence that United Ireland be a come-what-may goal of government policy. The unionist community, divided between those favouring integration with the UK and those favouring one or another form of devolution, has remained adamant in its opposition to the Agreement. Members of that community continue to demand the right to be citizens of the UK.

The past year's events in eastern Europe hold a lesson for the Republic. The post-communist states have had the wisdom to consign to history their territorial claims on each other. Instead, they are paying attention to the need to ensure the rights of national minorities. This state of affairs will be tested. If, for example, the Transylvanian Hungarians – who are Romanian citizens – feel themselves to be part of a poor state in which their rights are constantly in question, they may press for re-incorporation into Hungary, and will surely find allies. But there is no suggestion that jurisdiction over these people should be written into the new Hungarian constitution.

It is sometimes argued that the process of integration in the Community will dissolve the Anglo-Irish quarrel. This is not so. Community integration, if it succeeds, will be a pooling of sovereignties in common institutions in which all have a voice, not a yielding of sovereignty to another state.

In every test of public opinion over the past two decades – election, referendum, opinion poll – the British people (including the Northern Irish) have affirmed their desire to be part of the Community. In every equivalent test, the people of Northern Ireland have affirmed their desire to be British. Yet it is the former which stimulates agonies over the loss of sovereignty. The latter, where the loss was much more dramatic and resented, stirs up only apathy, and an embarrassed cough.

Mr Brooke, cautious and opaque as to his ultimate intentions, has it in his power and may have it in his head to end the Agreement. The Irish government has it in its power, but certainly not in its head, to end a claim on foreign territory which legitimises terror. The Irish problem is Ireland's problem. It is to Ireland that we should now be looking for political movement away from a futile and tragic irredentism.

LETTERS

Scottish Power to the citizens of Scotland

From Mr Ronnie Hunter-Blair.

Sir, Richard Lucas (Letters, July 17) writes that western-based advisers are not likely to suggest a free transfer of state assets to the citizens of eastern Europe. I have been thinking for sometime that Scotland (a socialist state) could benefit from such an idea.

Scottish citizens have been buying privatisation issues at only about half the rate of the English and our water is still in state hands. However, the 1991 privatisation of the South of Scotland Electricity Board, now called Scottish Power, could change this dramatically and give everyone in Scotland some wealth.

The SSEB was 60 per cent nuclear and had negative net worth of about £500m due to future liabilities. The very poor current plan is to keep the nuclear stations in a new state company called Scottish Nuclear and to sell Scottish Power with a few old fossil fuel stations and a small bit of hydro-electric. My suggestion is that Scottish Power should be given to the Scottish public as it exists.

Each citizen should be given 200 shares so that 1,000m would then be in issue. This can be justified politically because the company has a negative book value and debt of over £2bn. The Government is not giving anything away, it is reducing its liabilities.

I believe the share price would soon rise to well over £2 per share and such a company, with a reasonable cash flow and no working capital increases or much fixed capital to finance, would be attractive to any bank to lend money to. In a few years dividends could start as net worth became positive or the company could have a rights issue after the flotation to reduce debt.

All the population of Scotland would have windfall profits and not just 10 per cent. If the company with such a poor balance sheet did not survive, it would not mean a blackout. New owners would surely buy it from the administrators and no individual would have lost anything, because the shares were free.

Poll tax registration might be too political as the sole means of qualifying, but would help local government cash flow. A price rise of 8 per cent or so might be necessary to make the company more profitable, but perhaps costs could be cut or next winter might be cold, so reducing the cost per unit and increasing profits.

The current method of privatisation is not popular with many Scots because it benefits the few with money. My suggested method might be seen to be fair and reap political dividends, the current method reaps none.

Ronnie Hunter-Blair,
Fiddlers Hall,
Charlestown, Fife

Jobless figures 'freely provided'

From Mr Patrick Nicholls MP.

Sir, You headlined a claim by Henry McLeish MP ("Labour claims Government has suppressed jobless figures," July 12) that figures from this department's Labour Force Survey (LFS) were suppressed. This is nonsense. The information in question was freely provided to Mr McLeish by my officials, with my knowledge, and is available to anyone who seeks it.

LFS results are disseminated in reports and articles, analyses can be requested from this department, and the database is released publicly through a commercial computer bureau. Nothing is being suppressed.

Figures supplied to Mr McLeish, however, were accompanied by warnings about making time comparisons, professional advice which was ignored in the Labour Party's Labour Market Briefing No 2 issued in his name. This is typical of his careless use of figures but consistent with the content of Briefing No 1, which was also technically incompetent and presentationally incoherent.

In fact, this latest effort is largely a regurgitation of Briefing No 1 and repeats many of its errors of fact and interpretation, in spite of having them pointed out in a letter from my colleague, Tim Eggar. For example, Mr McLeish continues to parade inappropriate figures of National Insurance contributions, and now uses similarly irrelevant figures of company and value-added tax registrations to cast doubt on published figures of self-employment. Furthermore he challenges statistical definitions which follow recommendations of the International Labour Organisation and which continue the practice of the last Labour Government.

Briefing No 2 peddles the dubious unemployment calculations by the allegedly independent Unemployment Unit. Obviously the Labour Party is either ignorant of, or chooses not to quote the truly independent LFS measure of unemployment using an internationally recognised definition, which confirms the dramatic fall that has taken place in unemployment shown by the monthly claimant count.

The Labour Party's story is a myth. The facts are that since 1986 employment has grown by 2¼m and unemployment has fallen by 1¼m. The Labour Party's wishful thinking and distortion of the facts cannot change this, much though it would be in its political interests to do so.

The most reprehensible aspect of Mr McLeish's approach, however, is not his criticism of the Government which can be easily refuted but the attack he makes on the integrity of the Government Statistical Service. Political debate should be conducted on a higher level than that and well Mr McLeish knows it.

Patrick Nicholls,
Parliamentary Under Secretary of State,
Department of Employment,
Caxton House,
Tothill Street, SW1

BTG and the academic sector

From Mr Peter Tanner.

Sir, We were disappointed by certain comments made about British Technology Group in David Fishlock's article ("An invention to break the ice," June 21).

It is widely recognised that without BTG the major Oxford development of cephalosporin antibiotics would have suffered the same fate as penicillin and the commercial benefits would have been entirely lost to Oxford and the UK. Oxford benefited financially in a substantial way from this development and this success has paved the way for the recognition of academic intellectual property within the university.

To say of the control of dry rot invention that BTG "didn't do anything with it" is a distortion of the facts. BTG not only patented this case but also contacted many companies likely to be interested in it, licensed one of these and spent a not insubstantial sum on examining possible alternative methods for effective control of wood-decaying fungi.

After a full evaluation, however, the company licensed decided that the market opportunities did not justify it in going ahead.

We were pleased to see an end to the monopoly we had on government-funded inventions because we regard any monopoly as a restriction on technology transfer, whether this is a monopoly for BTG or for a university exploitation company.

Since the retraction of our first refusal rights, which has enabled us to be much more selective, the amount we have invested in academic work has grown steadily and our returns to our sources of technology have increased more than threefold over the past few years. Over the past year the financial return to the academic sector has been a substantial £13.1m in revenue sharing, project investment and investment in patents for university inventions.

Peter Tanner,
Business Development Director,
British Technology Group,
101 Newington Causeway, SE1

Danish policy

From Mr Erik Fiil.

Sir, I beg to refer to your article on Kenya ("Donors threaten to cut off aid to Kenya," July 19) in which I am quoted in relation to the concern of Nordic countries.

Your correspondent has quoted me on what I believed was a background briefing on possible options, in case further steps should be decided by the Danish Government in reaction to recent developments in Kenya.

I therefore strongly regret the appearance of this quotation which does not reflect the present policy of my Government.

Erik Fiil,
Ambassador of Denmark,
Nairobi, Kenya

FINANCIAL TIMES
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AIRCRAFT ORDER DELAYED

UK hints at US pressure in Japan

By Ian Rodger in Tokyo

US POLITICAL pressure is behind a delay in British Aerospace receiving a £240m ($437m) order from the Japanese military for 27 BAe 125-800 aircraft, British officials in Tokyo suspect.

They fear the pressure may be sufficient to postpone the decision indefinitely or even cause the Japanese to change the specification for the aircraft to favour US models.

The formal decision was due to be made at the end of June, but industry sources say a last-minute letter to the Japanese authorities from Mrs Elizabeth Dole, the US Labour Secretary, in support of a US bidder, Cessna, has halted the decision making process.

An official at the British Embassy in Tokyo said yesterday: "We are watching the situation carefully and with some concern."

British officials consider the contract a very important one, because it would be the first substantial order the Japanese Self Defence Agency (SDA) had placed with any non-US foreign company. Also, it could lead to further orders of as many as 30 BAe 125-800 aircraft at about $16.38m each to replace the SDA's ageing fleet of 40 Mitsubishi MU-2 propeller aircraft.

Tenders for the current order were issued by the SDA in April, seeking aircraft that could carry out specified search-and-rescue missions.

Gates Learjet and Cessna of the US, Dassault of France and BAe submitted bids. By early June, it became known that BAe had won the competition on price and performance grounds.

The Lear 55 and the Cessna Citation V were ruled out because they were too small to achieve the loads and range demanded, while the Dassault Falcon-50 was significantly more expensive than the BAe 125-800.

Under Japanese procedure, the decision made by the military officers had to be confirmed by the civilian heads of the SDA, a process that was to be completed by the end of June.

The deadline, however, passed and there was no sign of a decision. Within a few days, articles began appearing in the Japanese press revealing that the military had decided in favour of BAe, suggesting that the military were trying to pressure the civilians into endorsing their decision.

As a result of the reduction of the Soviet threat, the Japanese authorities have recently announced plans to revise downwards their medium-term defence spending plans.

British officials fear this may be used as an excuse to withdraw the plan to buy search and rescue aeroplanes at this time. Then the specifications could be redrawn at a later time to favour US suppliers.

The situation is a familiar one for European aerospace equipment suppliers. In the past, they have often been invited to tender for Japanese orders and have on occasion been led to believe they were well placed, only to find themselves beaten at the eleventh hour because of heavy US political pressure.

US Administration officials always insist their pressure to open Japanese markets is not intended to obtain preferential treatment for US suppliers, and for the most part, that has been the case. European car makers, for example, have benefited far more from US efforts to open the Japanese car market than US companies.

The US, however, regards aerospace as a sector in which it is pre-eminent. The Administration also remains concerned about its large trade deficit with Japan.

Nevertheless, there is no indication that the Administration itself has put pressure on the Japanese government in this case. Mrs Dole's intervention is believed to stem from the fact that Cessna is based in Kansas, the state her husband, Mr Robert Dole, represents in the Senate.

BAe won an initial order for three BAe 125-800s from the SDA last year for inspection roles.

Well-armed population keeps Pol Pot in his place

By John Pedler in Kompong Thom, Cambodia

PHNOM PENH, the capital of Cambodia, is not yet under military threat from Khmer Rouge guerrillas, although they are now operational only 64km away.

Western reports that the capital is threatened stem from a misconception about the Khmer Rouge's freedom of operation. They can and do move freely in the Cardamomes mountains to the west of the capital and in the north-western forests where the population is sparse. But the people will not let them concentrate in inhabited areas.

Recent exaggerated reports of Khmer Rouge successes, emanating mainly from Bangkok, and of the imminent collapse of the Hun Sen Government may have eased Mr James Baker's decision last week to change US policy on Cambodia. But my travels during the last two weeks in Cambodia's two most hard-pressed provinces – Kompong Speu, whose boundary begins barely 30km south west of Phnom Penh, and Kompong Thom – confirm that Pol Pot is a long way from winning.

The longer term chances, however, of Cambodia surviving the combined onslaught of the Khmer Rouge, the western economic boycott and rapid erosion of the domestic economy looked bleak before the US policy switch.

The switch means an end to US support for the occupation of Cambodia's seat at the United Nations by the opposition coalition, dominated by the Khmer Rouge. After a diplomatic fiasco by western states, 124 countries voted last November to allow the coalition to continue to hold the seat.

The issue will be reconsidered when the UN general assembly reconvenes in September. A number of states, including Belgium, France, Ireland, Australia and Sweden, are anxious to follow the US lead and will vote against the coalition.

Foreign ministers of the Association of South-East Nations meet later this week to consider their position.

Cambodia is a nation under arms. The people are armed to the teeth, making the last 64km from the mountains to the capital impossible for the Khmer Rouge to cross at the moment. The guerrillas cause increasing anxiety and two trains have been ambushed by sorties from Cardamomes strongholds in recent weeks. In the latest incident, when a train was mined, at least 50 people died.

Reports that the town of Kompong Thom, capital of the province, fell to guerrillas for some hours on June 17 are incorrect, although a force of about 1,500 did get close enough to rocket the town before being forced back.

Two small towns – Pra Sat Pralan and Stoung – fell in June. Both have been recovered.

The seizure of Stoung enabled guerrillas from Prince Norodom Sihanouk's faction, in coalition with the Khmer Rouge, to blow up five bridges along Route 6, effectively cutting the road from Kompong Thom to Siem Reap.

The guerrillas also killed all the crocodiles at the local farm at Stoung, apparently because it had been established with Vietnamese aid.

Reports that Mr Tea Banh, Cambodia's Thai-speaking Defence Minister, is either under house arrest or under guard in a military hospital in Vietnam are incorrect.

He told a local press conference that there had not been a coup attempt recently, as widely reported. He added that about six people, including the Minister of Communications, were under investigation for allegedly planning to set up an alternative to the existing single party.

"With the situation as it is the country cannot afford to have a lot of parties. That weakens the position of our government and helps the return of the Khmer Rouge. The state and people of Cambodia cannot tolerate that," he said.

He also admitted that compared with the opposition guerrillas the Cambodian army was poorly armed.

THE LEX COLUMN

A tale of two disasters

Consider the following two companies. One produces a glossy set of accounts in May 1989 showing record profits, strong dividend growth and a healthy balance sheet. Thirteen months later, before it can produce another annual report, it goes bust. The second company produces an even more spectacular set of accounts in June 1989, followed in January by a near doubling of interim earnings and a two thirds rise in dividend. Then it too goes bust. Both companies – Coloroll and Parkfield – are victims not of external disaster but of their own uncontrolled growth. So what is there in their published financial history to warn of coming disaster?

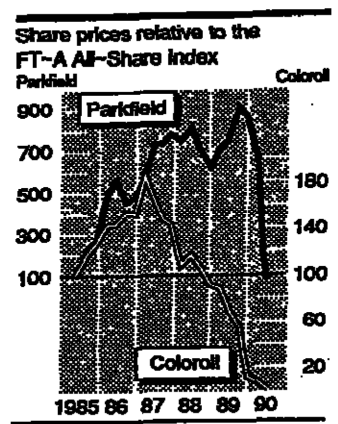
Remarkably little, on the face of it. Both companies had a big enough market value at their peak – Parkfield £260m, Coloroll £420m – to be closely scrutinised by the investment community. But even now, with hindsight, it is hard to detect the seeds of collapse. In Parkfield's last accounts, balance sheet gearing jumped from 7 per cent to 34 per cent. But interest cover stayed remarkably high at 8.4 times. Coloroll's gearing went from 20 per cent to 66 per cent; but again, interest cover was a safe-seeming 4.3 times.

The traditional financial ratios showed grounds for slight caution, but no more than might have been expected in the early days of an economic downturn. Coloroll's liquidity ratio – liquid assets to current liabilities – dropped in 1989 from 1.55 times to 1.40; but it had been lower again in earlier years. The same ratio dipped more alarmingly in Parkfield's case, from 1.57 to 1.06; but in textbook terms, even a liquidity ratio of one is normally regarded as healthy.

Other measurements indicated the same modest deterioration: the stock/turnover ratio, for instance, or the ratio of trade debtors to creditors. But both companies showed positive net operational cash flow in their last flow of funds statements. And both made the traditional statement of managerial confidence by increasing the dividend: Coloroll by 15 per cent, Parkfield by 71 per cent.

It has to be said that Coloroll in particular had a long-standing reputation for creative accounting. In its last accounts, for instance, it took a sharp-eyed reader of the notes to spot that in selling off a couple of subsidiaries to management buy-outs in order to reduce its debts, Coloroll had largely financed the buy-outs itself. One of them then went bust and so did Coloroll.

Share prices relative to the FT-A All-Share Index



In keeping with this reputation is the fact that Coloroll's share price started to fall a good two years before its published profits did. In Parkfield's case, the process was more rapid but similar in principle. From their January peak of 518p, Parkfield's shares lost 470p before last week's suspension. But of that fall, more than a third took place before the June profit warning which was the first formal notice that something was up.

It is here, perhaps, that the chief moral of the story lies. It is plain that in such cases the audited accounts give shareholders no inkling of what is really happening. The market's response is pragmatic. The share price has been at odds with the figures and the share price has been proved right. The natural conclusion is that it is the only reliable guide around.

The snag is that this can be a vicious circle. If the share price is trying to tell you something, the logical response is to sell the shares. The price then drops further, which means it is telling you something more: and so on.

If the company is not in fact going bust, the result is overshoot. This seems to be the case with Amstrad, which plunged horribly for 18 months before touching bottom last December. Since then it has outperformed the market by over 50 per cent. The same may yet prove the case with the most mysterious collapsing share of them all, Carlton Communications, which has underperformed the market by nearly 60 per cent in the past 15 months and is still falling.

It remains the case that for public companies suddenly to collapse under a burden of unsuspected debt is a very worrying development. It has become commonplace to observe that the asset side of the average balance sheet has been so distorted by years of inflation and goodwill write-offs as to be almost meaningless. The liabilities side ought to be another matter: but just when it is most needed, it seems to have become meaningless as well.

Bank ratings

Standard & Poor's downgrading of $3.1bn of Midland Bank's debt last week is a reminder of how the downturn in the UK economy is affecting the country's financial institutions. This week sees the start of the Big Four UK clearing banks' interim reporting season. It would be surprising if the expected near doubling in their bad debt provisions to around £1.3bn did not generate some painful headlines.

But it is worth putting this in context. The problems of the UK clearers are as nothing compared to those of the big US money centre banks. Midland may be the weakest of the UK clearers; but even after its latest downgrading, its debt still carries a higher rating than six of the top ten US banks. Barclays and NatWest also have their problems; but they are far more strongly capitalised than their US competitors. They are among a handful of global banks whose senior debt carries a triple A rating from both Moody's and Standard & Poor's.

Not so the US banks. On the eve of the last US recession in 1982, most of the major US banks including Citicorp, Chase, J.P. Morgan, Bank America and Manufacturers Hanover were triple A credits. Since then their ratings have been sliding. The senior debt of groups like Manufacturers Hanover and Chemical is now only marginally better rated than the top US junk bonds. This is hardly the best position from which to face the next downturn.

All this has been taken on board by the stock market. Shares of most US banks have been bumping against their lows at a time when the Dow has been hitting new highs. Chase Manhattan's shares are yielding over 12 per cent and are 50 per cent lower than three years ago. By contrast, Midland's shares are yielding less than 8 per cent and have fallen only 11 per cent over the same period. Unlike the Fed ten days ago, the Bank of England has not yet felt it necessary to relax its monetary policy in order to head off disaster in the UK financial system. If it ever does, doubtless UK bank shares will be yielding three times the market average as well.

Advertising industries warned of poor growth

By Alice Rawsthorn in London

THE US and UK advertising industries are set for a period of sluggish growth in the early 1990s, when markets in other countries will be extremely buoyant, according to a study by Saatchi & Saatchi, one of the world's largest advertising groups.

A prolonged slowdown in the US and UK could accelerate the ownership changes under way in international advertising, enabling French and Japanese agencies to continue to expand at the expense of established US and UK companies, the survey warns.

Saatchi expects the global advertising market to show real growth of at least 3 per cent a year over the next three years. The market, which was worth $187bn last year, should expand to $202bn this year.

The rate of growth, however, will vary from country to country. Saatchi forecasts that the US, the world's biggest single advertising market, will see expenditure fall in real terms and experience negligible growth next year and in 1992.

The UK will also suffer a fall in expenditure this year. However, Saatchi expects the British market to recover, albeit to relatively modest growth, as the economy recovers in the approach to the next general election, which must be held by June 1992.

The outlook for the rest of Europe is much more positive. The European market should show real annual growth of more than 4 per cent until 1993. Some countries, notably Spain and Italy, are set for far faster growth.

Asia-Pacific will be the most buoyant region with real growth of at least 5 per cent a year.

Japan, already the second largest market after the US, should continue with healthy growth. India is expected to expand rapidly in the 1990s, as South Korea and Taiwan did in the 1980s, Saatchi says.

The strength of the European and Asian markets could encourage the French and Japanese agencies to continue their expansion into other countries.

Until recently, almost all the leading international advertising agencies were based in New York, Chicago or London. The Paris and Tokyo agencies, buoyed by the strength of their domestic markets, are becoming increasingly ambitious overseas.

Eurocom of France recently took control of the agencies originally owned by the WCRS Group, a leading concern in the UK.

Boulet Dru Dupuy Petit, another French agency, has taken a significant stake in Wells Rich Greene of the US. Dentsu, the largest Japanese agency, is reported to be in discussions with Collett Dickenson Pearce of the UK.

Saatchi & Saatchi Advertising Expenditure Forecast. Zenith Media Worldwide, 63 North Wharf Road, London W2 1LA. £130.

Kaifu supports calls to relax Tokyo's ban on rice imports

By Ian Rodger in Tokyo

THE CHANCES of Japan's rice market being opened grew considerably at the weekend when Mr Toshiki Kaifu, the Japanese Prime Minister, added his voice to calls for an easing of the country's embargo on rice imports.

Noting that many countries were considering sacrifices to ensure success of the General Agreement on Tariffs and Trade (Gatt) Uruguay Round of multilateral trade talks, Mr Kaifu said in a radio interview: "We should not necessarily stick to our plan to reject all calls for opening the rice market."

He said he would welcome a debate on the subject among political parties and among the Japanese population in general.

The prime minister's remarks came a week after Mr Toshio Yamaguchi, a senior member of the ruling Liberal Democratic Party (LDP), shocked colleagues with a proposal that the rice market be opened by as much as 5 per cent.

Other party leaders, including the secretary general, Mr Ichiro Ozawa, immediately rejected his proposal, sayingit did not represent party or government policy.

Kaifu: favours open market

Senior Japanese trade officials also still believed last week that Japan could get through the Uruguay Round without making concessions on its rice market.

Mr Kaifu's statement confirms the subject remains very much alive. The Japanese Government is under immense pressure from the US to open its rice market, and there have been signs in recent months that an increasing number of Japanese are fed up with the import ban and high domestic rice prices.

Some opinion polls have indicated that a majority may favour liberalisation of the crop.

Japanese politicians are, of course, more interested in votes than in rice, as one admitted last week. But it takes many fewer votes to win an election in a rural constituency than an urban one. As a result, many Japanese politicians, especially in the LDP, remain responsive to the demands of the powerful farm lobby.

That lobby has been uncharacteristically cautious in recent months, perhaps sensing that it no longer has much support.

Mr Kaifu comes from a partially rural constituency near Nagoya. He has apparently been analysing the rice issue since spring, and seems to have decided that his best course is to favour liberalisation.

Since coming to office a year ago his political instincts have proved surprisingly sound, and his cabinet enjoys as high a rating as any LDP cabinet has achieved in the post-war period.

But the rice issue could prove to be Mr Kaifu's most difficult test yet.

Bush faces election year dilemma

Continued from Page 1

whose views are conservative-leaning but difficult to pin down – a little like his own. Among the names most often mentioned are Mr Kenneth Starr, the US Solicitor General; Judge Edith Jones of Texas; Judge Ralph Winter of New York; and Judge Patrick Higginbotham in New Orleans.

But rumours also persist that Mr Bush, whose reputation for pulling suprises began with his selection of Senator Dan Quayle as his running-mate in 1988, might pick the first-ever Hispanic to sit on the Court.

At all costs, however, the White House is expected to avoid nominating someone like Judge Robert Bork in 1987. Though he was an able scholar, Mr Bork's views were so outspoken that he was rejected overwhelmingly by the US Senate in a bitter battle which polarised the country.

Senate Democrats are likely to choose to hold the hearings as close as possible to the mid-term Congressional elections in November, with September being the earliest date.

Already, pressure groups have begun to mobilise. The National Abortion Rights Action League is sending half a million letters to their members urging them contribute money to the coming battle. A circular warns that Justice Brennan's resignation means that American women are just one vote away from losing their constitutinal right to have an abortion.

Problems mount on UK power sell-off

Continued from Page 1

similar lines. It has since been claimed in parliament and elsewhere that the company was undervalued.

The Government has also been criticised both in Brussels and Westminister for the financial inducements it offered British Aerospace to buy the Rover car group in 1988.

Groups based in the European Community probably could not be excluded from a bid for PowerGen, although it is thought unlikely that US or Japanese companies would be allowed to enter the bidding.

The Energy Department last night did not rule out the possibility of National Power also being sold by tender, although this does not appear to be under active consideration.

The provisions to be announced by National Power on Thursday will include a variety of costs, including those associated with job losses and power station closures, the devaluing of its coal stocks to world market prices, relocation, the privatisation process and pensions.

National Power will be pressed to elaborate its plans for job losses at a meeting with its trade unions today. Union leaders will demand a statement at the meeting which had been scheduled to discuss routine matters.

Moscow forced to reduce grain imports

Continued from Page 1

into shareholding companies;

- to issue a decree on small enterprises, to be approved by the Government this week;
- to organise the denationalisation of retail trade, restaurants and services, with the union republics;
- for the state bank to issue instructions on loans for any organisations and individuals to purchase state property;
- to establish a commission on state property to organise the denationalisation process.

Mr Ryzhkov has promised to submit a reworked economic reform package to the Supreme Soviet, the national parliament, by mid-September. However, he insisted that it must still include radical price reform plans.

He also promised emergency measures to reduce the state budget deficit, planned at Rbs60bn but now expected to hit Rbs90bn unless drastic action is taken.

The measures will halt funds for any construction projects still unstarted, and reduce foreign aid programmes (likely to affect countries like Cuba and Vietnam) and cut spending on the state bureaucracy.

He announced that, in a new effort to attract savings from the population, the interest rate on government bonds would be doubled from 5 to 10 per cent. As for bonds purchased to get guaranteed consumer goods in the future, their maturity dates would be halved.

WORLDWIDE WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F					
Ajaccio	S	27	82	Berlin	F	21	70	Caracas	C	27	82	Faro	S	32	91	Islamabad	C	32	90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Algiers	S	29	84	Biarritz	S	29	84	Casablanca	S	27	82	Florence	S	33	93	Istanbul	F	27	82	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amsterdam	S	19	66	Bombay	F	30	86	Chicago	R	17	64	Frankfurt	S	25	77	Jakarta	C	32	91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Athens	S	32	90	Bordeaux	S	30	86	Cologne	S	22	72	Geneva	S	29	84	Jersey	S	25	77	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bahrain	S	37	99	Boulogne	S	27	82	Copenhagen	S	21	70	Gibraltar	F	25	77	Johannesburg	F	15	59	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bangkok	R	27	82	Brussels	S	22	72	Corfu	S	32	91	Glasgow	S	20	68	Lima	C	17	64	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Barcelona	S	27	82	Budapest	F	27	82	Dallas		–	–	Helsinki	R	21	70	Lisbon	S	32	91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Beirut		–	–	Buenos Aires	F	6	44	Dublin	C	17	63	Hong Kong		–	–	London	S	21	70	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belfast	F	17	64	Cairo	S	32	90	Dubrovnik	S	30	86	Innsbruck	S	27	81	Los Angeles	C	21	70	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgrade	F	29	84	Cape Town	S	20	68	Edinburgh	S	17	63	Inverness	F	16	61	Luxembourg	S	26	79	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

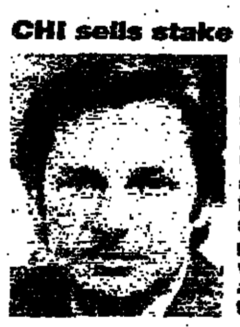
FINANCIAL TIMES
COMPANIES & MARKETS
Monday July 23 1990

INSIDE

Pentagon cancels Lockheed contract

The Pentagon has axed a $3bn contract it awarded to the US aerospace group Lockheed, because of what it described as the company's inadequate performance. Lockheed had been signed up to develop a new type of anti-submarine aircraft but had to take a $300m write-off last year when it miscalculated costs. Page 21

CHI sells stake

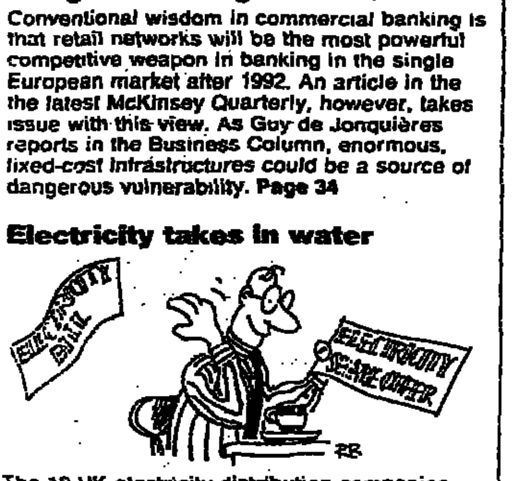


C H Industrials, the industrial holding company headed by Timothy Hearley (left), has sold its stake in Manganese Bronze, the taxicab and metal products maker for £7.5m. The sale should help cut the company's gearing. Two weeks ago it announced a 25 per cent fall in pre-tax profit. Page 18

Danger of falling branches

Conventional wisdom in commercial banking is that retail networks will be the most powerful competitive weapon in banking in the single European market after 1992. An article in the latest McKinsey Quarterly, however, takes issue with this view. As Guy de Jonquières reports in the Business Column, enormous, fixed-cost infrastructures could be a source of dangerous vulnerability. Page 34

Electricity takes in water



The 12 UK electricity distribution companies and the bankers that await their flotation are drawing lessons from the earlier water industry privatisation. One of the most important is that the transactions will not be captive business for the UK clearing banks. Andrew Freeman reports that foreign institutions, particularly US and Japanese banks, have already bid aggressively for mandates. Page 19

Market Statistics

Companies in this section

Australia looks hard at its flawed heroes

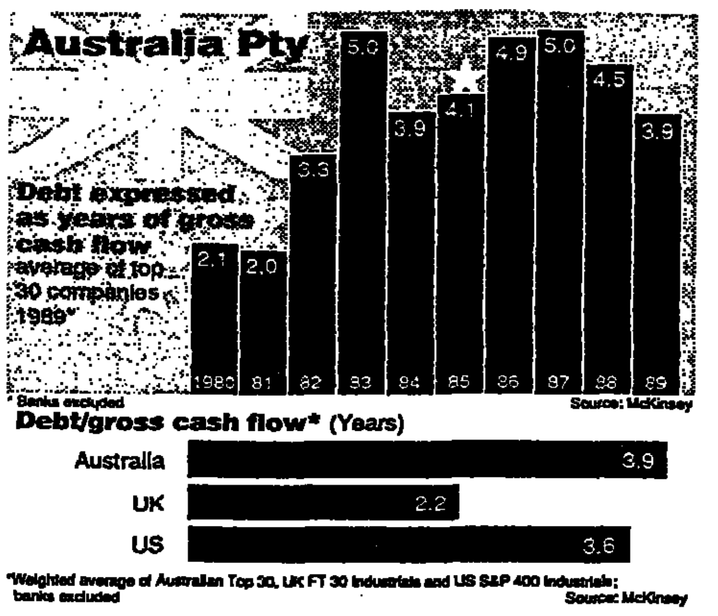
Kevin Brown reports from Sydney on Alan Bond's offer to quit, and a generation of corporate casualties

The apparent eclipse of Mr Alan Bond, the high-profile entrepreneur who says he is willing to resign as chairman of Bond Corporation, looks set to fulfill rule one of the executives' guide to handling a crisis: first, find someone to carry the can.

Uncharitably, some of the Australian bankers to whom Mr Bond's highly-leveraged Bond Corp owes money persist in doubting the sincerity of his offer to quit, made to holders of Bond Corp Eurobonds in London last Thursday. Nevertheless, it is clear that Bond Corp cannot last much longer in the face of overwhelming debt and hostility from both the Australian Stock Exchange (ASX) and the National Companies and Securities Commission (NCSC), which has launched an investigation of Bond Corp's complex financial dealings. Probing questions about many of Mr Bond's financial transactions are already being asked, and bankers, businessmen and regulators are saying privately that the one-time national hero bears a heavy responsibility for bringing the Australian corporate sector into disrepute around the world.

Mr Bond's was one of the most successful of the swashbuckling entrepreneurs who dominated Australia in the 1970s and 1980s, and whose financial flair was lauded by everyone from bankers to federal politicians until financial empires began to collapse after the 1987 world stock markets crash. The casualty list is long. It includes Mr Laurie Connell and his Rothwells merchant bank; Mr Christopher Skase's Qintex Corporation; Mr George Herscu's Hooker Corporation; and Mr Abe Goldberg's textile businesses. Other entrepreneurial companies, like Mr John Elliott's Elders IXL and Mr John Spalvins's Adelaide Steamship, are still in business but under heavy stock market pressure. Only Mr Rupert Murdoch, chairman of News Corporation, appears to be thriving, but as a US citizen, Mr Murdoch is now an Australian entrepreneur only in spirit.

In their day, the entrepreneurs had powerful friends like Mr Bob Hawke, the Prime Minister, who publicly supported Bond Corp as late as the end of 1987. Now the friends have disappeared, and the entrepreneurs are being blamed not only for getting themselves into trouble by borrowing too much, but also for making business difficult for everyone else by frightening foreign investors and provoking tighter bank lending regimes. Among those baying for blood have been the chairmen of blue chip Australian companies



like BHP, the steel and resources group, Westpac Banking Corporation and CSR, the sugar and building materials group. One of the strongest blasts came from Sir James Balderstone, chairman of the AMP Society, Australia's biggest life office and biggest institutional investor.

"The recent publicity given to questionable standards of behaviour by a handful of high profile companies has reflected adversely on Australia's overall business reputation," Sir James said. There was an urgent need, he said, to end abruptly the unacceptable practices of the few company directors who had failed to act honestly and in good faith on behalf of their shareholders.

Yet the impact of the entrepreneurs on Australia has not been entirely negative. Mr Bob Graham, chief economist of Westpac Bank, says their global activities contributed to Australia's above-average growth throughout much of the 1980s, and helped to lift the horizons of Australian managers, to the benefit of more solid corporate citizens such as BHP and Pacific Dunlop, the industrial conglomerate.

The entrepreneurs may also have done Australia a favour by turning a spotlight on the deficiencies of bank lending regimes and the regulatory environment. Much of the rapid growth in entrepreneurial debt occurred after 1983-84, when the federal Labor Government deregulated banking by awarding licences to 16 foreign banks. The effect was to promote a scramble for market share in an environment in which bankers were already abandoning the old practice of lending only against real assets in favour of lending against cash flow projections. Bank lending regimes have now been considerably tightened.

Official company regulation, had largely been left to the states because of the limitations of the Australian federal system. At the height of concern over the entrepreneurs, the NCSC had only a dozen investigators and a budget of just A$6.5m.

Putting that right has proved an enduring nightmare, as states compete with each other to wreck plans for a powerful national Australian Securities Commission in order to protect parochial interests. But progress is being made, and the ASC should get under way next year.

The exchange is also involved in a joint move with the Institute of Company Directors and the NCSC to draw up a code of ethics of directors. De-listing of companies and banning of directors would be the penalties for breachees.

Big gaps in Australian accounting standards, through which the entrepreneurs were able to crawl, still need to be filled in. There is no standard on the calculation of earnings per share, no requirement for cash flow statements, and confusion over consolidation accounting. Some of these changes will require legislation, others only action by the Institute of Chartered Accountants.

It will be years before the long-term legacy of the entrepreneurs is clear.

But if another generation of entrepreneurs is waiting in the wings Australians will respond much more sceptically than they did to the flawed heroes of the 1980s.

A summer of scapegoat hunting

By Anthony Harris in Washington

This is turning out to be a foetid summer in Washington. The oppressive, wet heat is shortening already inflamed political and racial tempers, and the scapegoat hunt is up. It is not a good time for rational decisions, and they are needed.

Three issues are bringing out the worst in those involved: race, the savings and loan debacle, and fiscal responsibility. The race issue is seeming the most marginal, but it is producing an atmosphere of hostility, apprehension and self-doubt which could prove disabling if it cannot be treated.

This is most obvious in Washington. The trial of Mayor Marion Barry for using drugs, and lying on oath about it. When he was elected 12 years ago, Barry was seen by people of both races as something of a black Messiah, able to heal a badly divided city. White taxpayers have long been disillusioned with an expensive, inefficient jobs-for-the-cronies administration, and some have celebrated too loudly at his toppling. Blacks see a white Government spending millions to entrap, and then persecute rather than prosecute, a hero, guilty only of a misdemeanour. Walk through this predominantly black city in the dark, and you can feel the resentment crackling in the air like impending thunder.

For the first time in my spell here, people are afraid. They are afraid too in New York and Baltimore and many other cities where open racial hostilities have broken out, in Louisiana where Republican voters are bolting the party to support a former Klu Klux Klan chieftain. This is one element in the growing apprehension which is threatening to split the Republicans, in spite of 10 years in power. It is a tragedy for President George Bush, who, whatever his other shifts and evasions, is a genuinely-committed opponent of racism. An appeal to the black vote was one of the most important planks in his party platform for the 1990s. Now that plank is split, through no fault of his; and the traditional Republican themes of anti-communism and strong defence have suddenly become irrelevant. For the moment, the party has little to offer but competence and leadership. But the amiable, popular President is increasingly seen as a shrinking figure.

When Chancellor Kohl and President Gorbachev replanned Europe in their own private summit, President Bush could say only that he had spoken to both of them at length on the telephone. Americans feel sidetracked. Some far from covert support for Mr Nicholas Ridley's too-big-for-their-boots line has subsequently emerged here. The Japanese, temporarily out of the scapegoat hunt, may feel some secret relief; but the President, with his new special relationship with the Chancellor, cannot.

Mr Bush also has his personal sorrow: the involvement of his son Neil in the collapse of Silverado, a savings and loan so speculative that it was known in its base city of Denver as Desperado. The younger Bush is at worst a minor figure in a minor incident in this national disgrace, but he is central in the popular consciousness, because his case is simple: he was lent $100,000 for a speculation, and the loan was forgiven when the speculation failed.

The public does not care whether this was legal or not; at last they know where some of their tax dollars went. The Democrats, who have hampers of dirty linen of their own, have been rubbing the lesson in – and now they are after another Bush connection, Mr Robert Thompson, a former aide , for involvement in the sale of a failed Oklamhoma thift at a sub-bargain price. This endangers their working relations with the White House, but they are driven by the voters.

Popular resentment of the S&L collapse has been slow to take light; but now the air is thick with smoke. If taxes must be raised, or subsidies and programmes cut, it is the fault of the S&L scandal. It is useless for the Administration to put the cost off-Budget, and for Mr Alan Greenspan of the Fed to prove that the bailout is economically costless. Voters struggling to meet mortgage payments, worried because their houses may now be worth less, have their scapegoat: the whole of Washington.

In all these circumstances, it is not surprising that most of the Republican candidates who must face the voters are in a fit of *sauve-qui-peut*. They are ignoring the party line and writing their own local platforms on a range of contentious issues; and by a large majority in a Republican conference last week, they abandoned their President on the tax issue, passing a no-new-taxes resolution. "We admire the President, we support the President, but we don't work for the President," as Representative Mickey Edwards of Oklahoma explained a little redundantly.

None of this is likely to prevent the completion of a Budget compromise between the White House and the Capitol Hill leadership: the Republicans lack the votes, and the Democrats agree with the White House that the arbitrary cut prescribed in a Gramm-Rudman-Hollings sequester would be intolerable. But it does threaten broader political trouble. If the President is forced to depend on pure Democratic rather than truly bipartisan support for fiscal common sense, there will be a price.

Meanwhile, there seems no chance at all of public understanding of (and support for) the ordinary rules of fiscal book-keeping. Yet this will be needed if a meaningful, multi-year Budget agreement is ever to be secured. This is what Mr Richard Darman, the budget director, is seeking; and Mr Greenspan says it is essential in order to convince the financial markets. This warning was promptly confirmed by the markets, which fell on Mr Greenspan's own remarks. They were worried partly because Mr Greenspan hardly mentioned inflation: has he eased up, as Treasury Secretary Nicholas Brady has been tactless enough to demand? It may also have been because nobody in authority mentioned the exchange value of the dollar. The dollar will certainly fall if the Administration gets the lower interest rates it wants, and ought to come down to help international adjustment. But adjustment is one thing, and "benign neglect" something different, and far more worrying.

One final warning rumble from this oppressive summer: official briefings on the Gatt talks have begun to use the word "failure." In a normal year, this could be dismissed as routine brinkmanship; but this year, one gets the whiff of a great big smelly scapegoat across the seas.

Economics Notebook

Similar paths to EMU

ITALY IS a land which discourages acceptance of coincidence. Its people tend to believe that events are orchestrated by hidden powers, that unrelated happenings are frequently linked by an unseen umbilical cord.

Despite some effort, it has not been possible to establish whether Mr John Major, the British Chancellor, has been taking private promptings from the Bank of Italy. On the surface, it would seem improbable. For the moment, therefore, we should conclude that it is mere coincidence that the UK, the European Community member with the least interest in monetary union, should have produced a proposal for achieving it which bears more than a passing resemblance to ideas tabled by EMU's greatest enthusiast, Italy.

Such has been the dutiful lobbying by the Treasury and British embassies, that no EC central bank or finance ministry can now profess ignorance of Mr Major's proposal for a "hard Ecu" which, during phase two of EMU – the one before irrevocably fixed exchange rates and a single currency – would give Community citizens their first experience of a common currency.

However, more than a year before the launch of the Major plan, the Bank of Italy had quietly lodged with the Delors Committee an original proposal to launch the Ecu as a common official currency, coexisting alongside national currencies. Like the British, the Italian plan presents itself as a transitional arrangement to full monetary union, and requires the creation of a new institution. Mr Major calls it the European Monetary Fund while the Bank of Italy uses the Delors' Report's formulation of a "System of European Central Banks."

The Italian central bank has made little effort to publicise its plan, although Governor Carlo Azeglio Ciampi put it on the record in a speech to a university audience in November. Bank of Italy officials politely defend the British Chancellor against charges of plagiarism by stressing what they see as the fundamental point of difference: the Italian plan gives the new institution the central role in determining and managing the Community's monetary policy while Britain's European Monetary Fund is more an accounting institution, issuing Ecus in exchange for national currencies.

A European central bank would require national central banks to hold official Ecus in proportion to the national monetary reserves which they themselves create. This would be how it would pursue each year's monetary and credit objectives, which would be, in Mr Ciampi's words, consistent with the "growth of economic activity in the Community and stable prices."

This fundamental difference of principle between the two proposals appears much less fundamental on closer examination. The Major plan posits a central institution with powers to require national central banks to repurchase their own currencies. This would be an important discipline against indulgent monetary policies and would accustom central banks to working within a framework of Community targets and objectives.

What we have, therefore, are two proposals which dovetail rather neatly as a coherent approach to phase two of monetary union. Britain's proposal introduces the Ecu for general circulation in the Community by means of a central institution with embryonic powers of monetary control. Italy's proposal hardens the powers of this institution and assumes that national currencies will gradually blend into the Ecu "which the needs of the market rather than any decision of the authorities will establish as the common currency."

All of which, of course, brings us back with total bemusement to the question as to why a British government which wants nothing to do with EMU is trying to help its partners to chart a path in that direction.

One possibility, of course, is that some melding of the British and Italian proposals for phase two will provide the basis for an agreement at the intergovernmental conference in Rome beginning in December. Mr Major would then be in a position to argue with Mrs Thatcher that the Community was charting a sensible way forward and that, having helped determine the route, it was in Britain's interests to set out on the journey.

A second coincidence, so far unremarked here, is that the man who reportedly had some influence in selling the "hard Ecu" idea to Downing Street was none other than Sir Michael Butler, now a merchant banker with Hambros, and formerly the UK's permanent representative in Brussels.

Sir Michael has a long and honourable record in having persuaded Mrs Thatcher that, having secured certain modifications, it was in Britain's longer-term interests to accept a number of EC policies which the prime minister tended to regard with extreme distaste. Given her past record, few of her colleagues in other governments really believe that Mrs Thatcher will sideline Britain from the EMU process, provided that it embodies some of London's thinking and that she can carry her party with her.

John Wyles

THIS WEEK

THE UK TRADE figures for June get the week started, with the markets looking for a visible trade deficit of £1.6bn ($2.90bn) and a current account deficit – which takes in both invisible and visible trade – of £1.4bn.

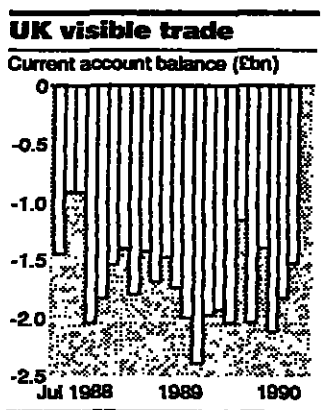
The last few months have shown UK export growth picking up, admittedly from a low base. The trend in visible trade remains positive, thanks partly to strong economic growth in Germany and other key markets. The recent strength of the pound on the back of hopes for entry into the European exchange rate mechanism (ERM) could affect both the profitability and competitiveness of UK exporters in coming months. The June figures however should still show a strong export performance while the sharp fall in retail sales last week could be helpful if the import trend indicates that consumers are buying fewer foreign-made goods.

The US Federal Budget trade balance, coincidentally, is also released today, with the markets looking for the usual June surplus as a result of tax payments coming through. The underlying trend, though, is definitely worsening – with the deficit running at $200bn once the savings and loan bailout costs are factored in.

On Wednesday, the US releases figures for durable goods orders (0.5 per cent) and auto sales in June – both should show a weakening of demand in the economy. The UK Chancellor, Mr John Major, will face the Treasury and Civil Service Committee to explain in greater detail his ideas for an evolutionary approach to EMU through a hard-Ecu to be managed by a European Monetary Fund (EMF). The plans for the Ecu to become the thirteenth EC currency for Europe, have met widespread scepticism thus far.

Other events and statistics, with median forecasts from MMS International, the financial research company:

UK visible trade



Today: UK, June visible trade balance (–£1.6bn), June current account (–£1.4bn). Brussels, EC Economic and Finance Ministers meet to discuss EMU and new Commission VAT proposals.

Tuesday: US, Mr Alan Greenspan, chairman of the US Federal Reserve, to deliver Humphrey-Hawkins testimony to House Banking Committee. Attention will focus on the Fed's attitude towards inflation after last week's controversial assertion that "core inflation is moderating" given the sluggish growth of the US economy.

Wednesday: Geneva, start of Opec ministerial meeting in Geneva – expected to confirm cutbacks in oil output. Mr John Major, UK Chancellor to give evidence on EMU and explain hard Ecu proposals before UK Treasury and Civil Service Committee.

Thursday: Frankfurt, Bundesbank mid-year policy review meeting. Brussels, EC budget ministers meet. Japan, June retail sales and industrial production. Both are expected to provide fresh evidence of economic buoyancy, accompanied by concern over underlying inflationary pressures.

Friday: US, preliminary second-quarter GNP report (GNP grew at an annual rate of 1.9 per cent over the first quarter). West Germany, cost of living index.

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

Swaps market gives way to the institutional investor

THE EROSION of swap opportunities in the Eurobond market is forcing borrowers to drop their funding targets. Many have sliced ¼ point from their floating-rate targets, as the pressure to catch up with this year's funding intensifies.

The disappearance of attractive arbitrage appears to be a long-term trend, resulting in part from the market's increasing transparency. Borrowers had hoped it was a temporary blip, caused by bond market volatility earlier this year.

"We have decided that the situation will not get any better in the longer term," said Mr Bo Marking, president of Swedish Export Credit, the country's export financing agency.

No arbitrage exists indefinitely: as investors become more sophisticated, anomalies are arbitraged away.

"Sophisticated investors look at the value of a Eurobond not just against the Government bond market, but against the swap market," said Mr Jonathon Hakim, head of the transactions desk of UBS Phillips & Drew. Investors sell Eurobonds when they start to look expensive against the swaps market, because they read this as a signal of new supply. This reduces the arbitrage before borrowers can take advantage of it by issuing new paper.

In the European currency units bond market, the increasing domination of institutional investors has substantially diminished the arbitrage opportunities in this once swap-driven market.

The Italian Government's Certificate del Tresore in Ecu (CTEs) are subject to 12½ per cent withholding tax, which means they are issued at a gross yield above Ecu Eurobonds. Since many non-Italian investors can reclaim the tax, this provides arbitrage opportunities which have historically generated much of the market's issuance. But the bond market now anticipates the movements in the swap market which the CTE issue creates. Consequently, the flood of five-year Eurobonds which used to stream into the market on the back of CTE issuance has abated.

The only markets which are still offering very attractive swap opportunities are those which are not yet subject to the full impact of market forces, analysts say. For example, arbitrage opportunities persist in the Spanish and Italian bond markets, where domestic investors are subject to withholding tax.

But both markets are small and the authorities limit issuance by means of a queueing system, so that borrowers cannot take advantage of short-lived opportunities. Moreover, both governments are now embarked on a process of financial deregulation, which could eradicate these discrepancies over the next few years.

Differentials between bond yields for the same issuers in different bond markets, such as the US domestic and the Eurodollar bond sectors, are also being eroded. "There is a growing group of investors whose activity spans both markets," explained Mr Hakim.

The absence of retail investors over the last year has also helped iron out arbitrage opportunities. Retail investors do not assess value in the same way as institutions, for example, they will often pay a premium for a name they recognise. This creates anomalies which can benefit institutional players. However, retail investors have stayed out of the bond markets largely because of the high short-term rates available in many markets, and might return when the shape of the yield curve changes.

The efforts by market intermediaries to restore profitability to the new issues business, by sticking to fixed commissions and pricing deals sensibly, has removed another prop for borrowers. Underwriters have become less willing to subsidise swap rates by pricing Eurobonds aggressively.

These new pressures on Eurobond market borrowers are likely to change patterns of issuance. Borrowers which do not need to tap the market will probably stay away, reducing the pool of issuers. Others will adapt to changing conditions, perhaps relying less on the swap market.

Eurofima, the European railway rolling stock financing agency, is already shifting the balance of its funding in favour of fixed-rate financing. "We have swapped less this year than in 1988 and 1989" said a Eurofima official. The agency then on-lends directly, since most of its lending is in fixed-rate European currencies. The agency is currently prepared to consider floating-rate funds at 25 basis points under London interbank offered rate, ¼ point lower than its historic funding target.

Swedish Export Credit's target was once 110 basis points below Libor, at a time when the swaps market was still immature. Last year, the target was 50 to 60 basis points. That has now dropped to 30 to 40 basis points under Libor.

The agency's policy of maintaining a high level of liquidity has allowed it to continue to disburse loans, while mostly staying out of the Eurobond market so far this year. The agency charges a margin of about 50 basis points when it on-lends funds. "What has been a bit of a problem is that takers of funds have been slower to adapt" to the change in rates, said Mr Marking of SEK.

The agency has a further $2bn of funding to raise this year, having raised around $1.5 bn so far this year. "We will be a net borrower in the years to come, so we have to adapt to market conditions," said Mr Marking.

For lower credits, sub-Libor funding has become impossible. For example, UK building societies, which once could achieve perhaps 10 basis points below Libor, must now pay substantially above Libor.

Tracy Corrigan

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Kao Corp.(j)♦◆	300	1994	4	4¾	100	Yamaichi Int.(Eur.)	4.750
Kuraray Co.♦◆	200	1994	4	4¾	100	Daiwa Europe	4.750
Furukawa Electric♦◆	300	1994	4	4¾	100	Yamaichi Int.(Eur.)	4.750
JGC Corp.♦◆	170	1994	4	4¾	100	Nomura Int.	4.750
Sumitomo Metal Ind.♦◆	320	1994	4	4¾	100	Nikko Secs.(Eur.)	4.750
Orient Corp.♦◆	300	1994	4	4¾	100	Nomura Int.	4.750
Carco Dealrs W'sale Tst(a)◆	650	1996	6	9¼	99.72	Swiss Bank Corp.	9.313
RPM Inc.(b)◆	50	2005	15	6¾	100	PaineWebber Int.	6.750
Seiyu Ltd.♦	250	1994	4	4¾	100	Nomura Int.	4.750
SBC Fin.(Cayman Is.)◆	150	1993	3	9	101.97	SBC	8.232
Gen.Elec.Cap.Corp.◆	250	1993	3	8⅝	101.10	Bankers Trust Int.	8.197
Kyushu Leasing(m)†◆	75	1997	7	20bp	100	Nikko Secs.(Eur.)	-
Ford Capital BV(o)◆	250	2000	10	9½	99.285	Goldman Sachs	9.615
Credito Italiano(q)‡◆	100	2000	10	40bp	100	Sumitomo Fin. Int.	-
Turkey, Republic of◆	150	1995	5	10⅜	101.20	Daiwa Europe	10.058
STERLING							
Ladbroke Group Fin.(k)§◆	83	2005	15	9	100	CSFB	9.000
CANADIAN DOLLARS							
Swedish Export Credit◆	100	1992	2	12¾	101¾	Bankers Trust Int.	11.718
Deutsche Bank Finance(h)◆	50	1995	5	11½	100.20	Deutsche Bk.Cap.Mkts	11.445
AUSTRALIAN DOLLARS							
GECC (Canada)◆	100	1995	5	14¼	101¾	Merrill Lynch Int.	13.743
New South Wales Treasury◆	500	2010	20	zero	8 11/16	Merrill Lynch Int.	12.994
DSM NV◆	75	1994	4	14¾	102	Bankers Trust Int.	14.063
New Sth Wales Treasury(t)◆	300	2005	15	zero	15.25	Merrill Lynch Int.	13.357
NEW ZEALAND DOLLARS							
Telecom N.Zealand O'seas◆	50	1993	3	13½	101.80	Kredietbank NV	12.741
D-MARKS							
Inabata & Co.♦	110	1994	4	4⅞	100	Nomura Bk (Germany)	4.875
Council of Europe(u)◆	200	2000	10	(u)	100	Trinkaus & Burkhardt	-
ECUs							
SNCF(n)◆	125	1999	8¾	9	97.025	BNP Capital Markets	9.503
SWISS FRANCS							
Japan Telecom Co.★★◆	50	1995	-	7½	100¼	Fuji Bank (Switzerland)	7.438
Daido Steel Sheet(e)★★§	91	1995	-	5	100	UBS	5.000
Sakurada Co.(f)★★§◆	85	1994	-	3¾	100	Yamaichi Bank (Switz)	3.785
Province of Saskatchewam◆	200	2000	-	7	101¾	Credit Suisse	6.754
World Bank★★◆	200	1997	-	7	102	Swiss Bank Corp.	6.634
Sanyo Denki Co.★★♦	80	1995	-	4¼	100	Swiss Bank Corp.	4.250
Chugoku Marine Paints(l)★★§	80	1995	-	(3½)	100	Citicorp Inv. Bank	★
Canon Sales Co.(s)★★§	300	1994	-	(3½)	100	B.della Svizzera Ital.	★
OSG Corp.★★♦	60	1994	-	4¼	100	UBS	4.250
FRENCH FRANCS							
SNCF(d)◆	750	1997	6⅔	9¼	98.55	CCF	9.534
Caisse Nat.d'Telecom(i)◆	1bn	2000	9⅔	10	102	CCF	9.656
Interfin.Credit National(g)◆	500	1993	2¾	10¼	101.45	Banque Paribas	9.588
Eurofima◆	1bn	2000	10	9⅞	101¼	Banque Paribas	9.674
Compagnie Bancaire(r)◆	400	1992	1.83	10¼	101.025	CCF	9.572
PESETAS							
Denmark, Kingdom of◆	10bn	1995	5	13¾	101¾	Banesto/J.P. Morgan	13.249
LIRE							
Banque Paribas◆	130bn	1994	4	12⅜	101⅜	B. Nazionale d'Lavoro	11.923
LUXEMBOURG FRANCS							
Belgelectric Finance◆	1bn	1997	7	9⅜	101.95	Kredietbank Int.	8.988
Skips Kredit Foreningen★★◆	300	1994	4	9⅝	101⅞	Kredietbank Int.	9.046
YEN							
State Bank of S.Australia◆	4.8bn	1993	3	(c)	101⅜	Nomura Int.	-
Great Belt A/S◆	15bn	1995	5¼	7.2	101.85	LTCB Int.	6.759
Compagnie Bancaire◆	10bn	1993	3	7.4	101⅜	Mitsubishi Finance Int.	6.877
Altus Finance(p)◆	5bn	1994	4	6⅜	99.225	Mitsui Trust Int.	6.602
World Bank(v)♠◆	30bn	1997	7	7	95	Nomura Secs.	7.959

★Not yet priced. ★★Private placement. ♠Reverse dual-currency bond. †Floating rate notes. §Convertible. ♦With equity warrants. ◆Final terms. a) Fixed re-offer price 99.72. Call at par after 5 yrs at SBC's option. If call not exercised, deal pays 50bp over Libor in last year. b) Conversion price: $25 50. Conversion premium 15.25%. Call at 103 declining by 1% p.a to par in 1996, at any time from 15 July 1993, but not before 15 July 1995 subject to the 130% rule. c) Launched in two tranches: Y4.6bn and Y200m. Coupon pays ⅛ over 6-month Libor, then 10% in yen in 1992 then 10% in yen or 20% in A$ at issuer's option in 1993. Last coupon and redemption will be paid in same currency. d) Fungible with FFr2bn issue. e) Call from March 31, 1993 at 104, declining one point semi-annually. f) Put option Sept 30, 1992 to yield 6.057%. g) Fungible with existing FFr1bn issue from 13 August. h) Fungible with existing C$100m bond launched in June, from 1 August. i) Fungible with existing FFr1bn bond launched early April, from 28 August. j) $100m launched in Asia through Nikko Merchant Bk(Singapore). k) Callable from June 1995 at par. Conversion price: 379p. l) Put option on 30/9/93 at an indicated 108⅝ to yield (6.025%). m) Coupon pays 20bp over 6-month Libor. Non-callable. n) Fungible with existing Ecu175m issue. o) Fixed re-offer price. Non-callable. p) Unlisted. Non-callable. q) Coupon pays 40bp over 6-month Libor. Call at par 1995 and annually thereafter. r) Fungible with existing FFr600m bond. s) Put option December 1992 to yield indicated 6.007%. t) Fixed re-offer price. u) Coupon first two years 9½%, then 18% minus 6-month Libor thereafter. Non-callable. v) Daimyo bond issue. Interest in A$. Principal redeemed in yen. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CREDITS

Banks prepare for electricity flotation

FIRST THERE was water. Now comes the UK electricity industry privatisation and the banks are lining up the funding facilities for the 12 distribution companies. Early price talk suggests that both sides have learned from the experience of the water industry flotation.

Against a generally quiet background, it is an opportune time for the electricity companies to be coming to the market. The UK corporate sector has been depressed, so bankers are welcoming these sizeable, quality credits.

Momentum is fast building up. The broad features of the electricity companies' funding requirements are said to be in place. Mandates have been awarded or at least informally promised to a number of houses, although the precise details will have to wait until the UK Government announces the final capital structures and debt levels of the companies.

Bankers say there could be a few shocks among the gearing levels set by the Government. They suggest a range of gearing from 20 per cent to above 40 per cent depending on each company's profile. But the banks are confident that the general shape of the credits will make lending decisions straightforward.

The great lesson of the water privatisation was that these transactions are not captive business for the UK clearing banks. Foreign banks, particularly US and Japanese players, have bid aggressively for mandates, apparently with some success.

At the same time, bankers report a reaction by the electricity companies against the heavy marketing tactics of the banks and say they are tending to revert to a single, known bank. The attraction of the business is that it is seen as safe. Banks will take a smaller return on what they see as very reliable lending.

In particular, Japanese players appear to have been given the go-ahead from Tokyo to push hard for what are seen as assets of UK Incorporated. They are expected to play a leading role in underwriting the deals, although they may find it hard to win positions as arrangers.

The 12 distribution companies will be looking to raise around £3bn, much less than the £7.5bn to £8bn needed by the water companies. On average, they are seeking straightforward revolving credit facilities of £150m to £400m, with the larger companies like Eastern at the top end of the range.

Further funding needs will be forthcoming from the two generating companies and National Grid company, which are being privatised separately and have greater capital expenditure programmes.

In addition, the larger distribution companies have long-term plans to enter the power generation business, making them potential sources of attractive project financing and long-dated debt issues. The banks have plenty of incentive.

The danger is that if their pricing becomes too aggressive, deals could suffer in general syndication. When the water companies were floated, their facilities had varied receptions. According to some bankers, the terms indicated for the electricity companies are too tight and this could lead to a repeat performance.

The broad characteristics of the deals, mostly facilities of five to seven years' maturity, are: margins have been set between 15 and 20 basis points, with fees of between 7½ and 10 basis points. Again, the bigger companies have benefited from finer pricing.

The lower margins are natural given the distribution companies' obvious credit quality and relatively small capital expenditure needs. The fees, however, are seen as having been bid down to the bone.

Andrew Freeman

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	1,298.4	291.0	611.3	13,673.3
Prev	876.0	30.0	276.1	12,088.5
Other	1,161.3	45.3	384.3	4,912.7
Prev	2,748.4	122.9	1,460.8	6,447.5
Secondary Market				
US$	16,302.2	1,464.6	7,028.0	7,834.5
Prev	13,646.8	736.4	3,177.4	8,723.3
Other	20,107.8	1,815.5	5,077.1	36,293.7
Prev	24,136.9	862.4	4,164.2	30,832.1

	Cedel	Euroclear	Total
US$	16,792.5	31,910.8	48,703.3
Prev	14,272.8	25,281.7	39,554.5
Other	29,028.0	40,769.7	69,797.7
Prev	31,779.9	38,995.5	70,775.2

Week to July 19, 1990 Source: AIBD

INTERNATIONAL CAPITAL MARKETS

Pentagon cancels $3bn contract with Lockheed

By Roderick Oram in New York

THE PENTAGON has cancelled a $3bn contract it awarded Lockheed to build a new type of anti-submarine aircraft, because of what it described as an inadequate performance by the company.

The rare move will hurt Lockheed's earnings, cost 900 workers their jobs and may renew criticism of the Lockheed management by Mr Harold Simmons, the Texas investor who controls a 19 per cent stake in the company.

Lockheed had to take a $300m write-off in the fourth quarter of last year when it found it had miscalculated how much it would cost to develop the aircraft, the P-7A. It had hoped to base it on the existing P-3 but found it had to do more extensive work.

The contract was revoked because Lockheed "had failed to make adequate progress" in designing and building the first two prototypes which were scheduled to fly in two years, the Navy said.

The grounds on which the Government cancelled the contract will prevent Lockheed seeking reimbursement for its investment to date. The company said it would seek to have the cancellation reclassified to enable it to recover some costs.

The P-7A was the only significant new military aircraft project Lockheed had, although it is competing for the contract to build the next generation of Air Force fighter.

Nova tumbles in second quarter

By Bernard Simon in Toronto

A 46 PER CENT tumble in operating earnings from petrochemicals and plastics badly dented the second-quarter earnings of Canada's Nova Corp.

Net earnings fell to C$56m (US$35.7m) or 16 cents a share from C$72m or 28 cents a share. The bottom line was partly cushioned by an after-tax gain of C$30m or 10 cents a share, from the sale of Grove Italia, an Italian pipeline valve manufacturer. The gain is net of Nova's subsequent purchase of a 32 per cent stake in the new controlling shareholder.

Second-quarter revenues rose fractionally to C$1.24bn. Operating income from plastics, petrochemicals and rubber slid to C$96m from C$178m. But earnings from Nova's other key business, natural gas pipelines, climbed to C$60m, from C$70m, reflecting expansion of its Alberta pipeline system.

The company blamed the profits downturn on weak petrochemicals prices, high Canadian interest rates and the strong Canadian dollar. On the other hand, production volumes in the petrochemicals and rubber divisions increased.

Nova, burdened by debt from its takeover two years ago of Polysar, the Canadian petrochemicals producer, recently announced the C$1.25bn sale of its highly regarded synthetic rubber division to Bayer of West Germany.

The deal, expected to be closed within the next two months, will release Nova from about C$100m in debt of the rubber business as well as all trade and other liabilities.

Swiss bank seeks improved business climate

By William Dullforce in Geneva

SWISS Volksbank, Switzerland's fourth largest listed bank, said that to achieve a satisfactory 1990 result, it needs an improvement of climate in several business areas during the second half of the year.

Last year it posted a 13 per cent increase in net earnings to SFr136.5m ($97.5m) but did not increase its dividend.

Without stating profit figures, the bank said the earnings environment during the second quarter had been marked by the adverse influence of high interest rates.

The rates had led to a shift from favourable to costly funds.

Marine Midland Banks slips further into the red

By John Elliott in Hong Kong

MARINE MIDLAND Banks, the New York-based subsidiary of the Hongkong and Shanghai Banking Corporation, slipped further into the red during the second quarter when it produced a net loss of US$25.8m against net income of $41.4m in the same period of last year.

This led to a $19.8m loss for the first six months compared with net income of $81.6m. The losses have been mainly caused by problems in the US commercial property market.

Marine Midland said it expects "continued pressure on earnings throughout the remainder of 1990," and Hongkong Bank is making no predictions about when a turnround can be expected. This is despite a restructuring in progress which is aimed at cutting costs, making capital improvements, and disposing of some businesses and assets.

Marine Midland sold its international private banking business to Barclays Bank during the second quarter. Earlier this month it sold 80 per cent of its ownership in Marinvest to Wardley Investment Services, part of Hongkong Bank's merchant banking arm. It also reduced its loans to refinancing less developed countries.

On June 30 Marine's Tier 1 capital, under capital adequacy guidelines, amounted to some 4.9 per cent of risk adjusted assets, against 4.18 per cent at the end of the first quarter and 3.77 per cent at the end of last year.

Texas Instruments warns of likely loss

By Roderick Oram

TEXAS Instruments made only a meagre profit in the second quarter and warned it might report a loss for the third quarter, largely because of the depressed state of its semiconductor business.

Its net profit for the three months to June plunged to $11m, from $106m a year earlier. After paying dividends on preferred stock, the final net was $1m, or 2 cents a share, against $96m, or $1.14. Revenues slipped to $1.59bn from $1.63bn.

Coupled with a first-quarter loss of 6 cents a share, the latest result gave a first-half net of only $24m against $191m a year earlier. After dividends on preferred stock the final net was $6m, or 7 cents against $171m, or $2.04. Revenues were $3.13bn against $3.23bn.

"After slowing significantly in the second half of 1989, the world semiconductor market appears to be stabilising," said Mr Jerry Junkins, chairman. The market remains sluggish in the US but "robust" in Europe and is gaining strength in Japan and the Asia-Pacific.

Despite some improvement from the first quarter, TI's semiconductor business continued to operate at a loss in the second quarter. It was dragged down by market conditions and high costs for starting up new products and capacity.

● Advanced Micro Devices, the California chip maker, fell into a loss of $5.9m or 10 cents a share in the second quarter to July 1, on revenues of $267.7m, compared with a profit of $12.1m or 12 cents per share, on revenues of $274.9m a year earlier, Reuter reports from Sunnyvale.

AMD said strong competition caused disappointing revenues in the second quarter, and high costs tied to a severance programme brought about the loss.

The results included a gain of $8.1m from the sale of an investment.

Mr W.J. Sanders, chairman, said the company was cautious about expectations of significant growth in the traditionally slow summer quarter.

Malaysian broker sets a precedent

Lim Siong Hoon on growing links between banks and broking houses

Convergence between banks and stockbroking firms in Malaysia took an unexpected twist last week when Rashid Hussain, the country's largest brokerage, announced it was buying a 30 per cent stake in Development and Commercial Bank, the country's fifth largest banking group.

The deal sets a precedent because until now the only ties have been through banks owning brokers and only a handful of the 35 domestic banks have a broking offshoot. Most of the 53 broking houses are controlled by individual licence holders.

Rashid Hussain's M$224m ($83m) investment, bought from United Industrial Corporation of Singapore and to be paid for through a three-for-five rights issue, offers it access to its D&C's activities covering commercial and merchant banking, insurance, leasing, investment and fund management.

Financial regulations and force of habit have in the past tended to keep the two sectors apart. Banks, suspicious of financing margin trading, extract high charges for stock market lending.

David Hayes

New rules introduced on the Kuala Lumpur Stock Exchange

Most brokerages are under-capitalised at M$2m, the minimum requirement. But for the past year they have been under official pressure to find corporate partners, to raise their minimum capital to M$5m immediately and to M$20m eventually, and to introduce more research.

Both the brokerages and the banks have been targets of government-driven reforms, partly in order to ensure they cope with new equity issues coming to the market from the country's privatisation programme.

Banks have been undergoing a similar capital restructuring exercise which, among other things, will help diversify their lending activities. These reforms brought forward the expectation that banks could soon come to own a larger slice of the brokerage business. But Rashid Hussain's purchase represented the opposite.

Rashid Hussain, which opened for business eight years ago, is the country's only publicly quoted broking house. Earlier this month, rules were introduced which lay the path for more brokerages to raise capital on the Kuala Lumpur Stock Exchange.

The Government seems supportive of bank-broker links which would make change in the sector more palatable than merely driving them to sell their business to big companies or banks.

Successful Mexico debt-equity swap auction

By Richard Johns in Mexico City

THE 359 bids made in Mexico's first debt-equity swap auction were equivalent to no less than $18bn of the country's $41.6bn in outstanding medium and long-term public sector debt, according to officials who said: "We were really a bit overwhelmed by the response."

The Ministry of Finance announcement that 27 offers at a discount set at 50.2 per cent had been accepted for the $1bn in conversion funds at stake. Mexican public debt recently has been traded at 44 to 45 per cent of face value on the secondary market.

Ministry of Finance officials also expressed satisfaction with the amount of the discount achieved. Offers ranged from 35 per cent – the minimum set – to 68 per cent with an average of 46.46 per cent.

All the bids related to infrastructure investments related to projects and none to privatisation. The officials believe the approvals probably involve a total investment commitment of at least $3bn with the infrastructure requirements of, for instance, a big tourism project accounting for anything from 20 to 33 per cent of the cost.

Officials say that communications related to projects, in a wide variety sectors apart from tourism and not least agriculture, constitute the single most important area of investment involved in the auction.

Foreign bank representatives here believe the Government may be regretting – in view of generally disappointing investment flows from abroad – it set a limit of $3.5bn on debt-equity swaps for 1990-92 in negotiations with commercial bank creditors in March.

European banks to set up payment netting system

By David Lascelles, Banking Editor

A TOTAL of 19 leading banks operating in the European foreign exchange market have agreed to set up a payment netting system to simplify settlement and reduce trading risks.

The project, to be known as Echo Netting, will be based in London and should be in operation at the end of next year.

Netting is the means by which banks which normally send large numbers of payments to each other every day, net out their obligations to a single amount instead. This greatly reduces transaction costs and the risk of default.

Mr Graham Duncan, the project manager, said Echo Netting was the most ambitious netting system yet devised because it was based on multilateral netting between a large number of banks and would cover many different currencies and value dates. Other netting systems were more limited in scope.

The 19 founding banks include the members of the Abecor and Ebic banking associations, among which are Europe's largest banks: Barclays Bank, Deutsche Bank and Banque Nationale de Paris. There are also three US banks, Bankers Trust, Chase Manhattan and Morgan Guaranty Trust. Others will be invited to join. Mr Duncan said that the potential list of large dealers in the foreign exchange markets was 80 banks.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

A perplexing and bothersome time

BY LAUNCHING a peculiar policy initiative and giving ambiguous congressional testimony, Mr Alan Greenspan, chairman of the Federal Reserve, has been bothering US credit markets in recent days.

While they responded favourably a week ago to the Fed's ¼ point reduction in Fed funds to 8 per cent, the markets were perplexed by Mr Greenspan's explanation that the Fed was offsetting a tightening of credit by lenders. How real was the crunch and why respond that way, many people wondered.

Seeking further enlightenment, market participants listened carefully to his semi-annual presentation to Congress of the Fed's view of the world. Not much was forthcoming. Worse, Mr Greenspan failed to give the tough-on-inflation speech considered mandatory for central bankers.

His timing was also unfortunate. He spoke on Wednesday only hours after the release of the consumer price index which showed a 0.5 per cent increase in June, about double the rise Wall Street had forecast.

The figure was "higher than we would like to see," Mr Greenspan told Congressmen. He also raised the Fed's inflation forecast for this year to between 4.5 and 5 per cent from its 4 to 4.5 per cent estimate of February.

Nonetheless, he eagerly outlined circumstances in which the Fed might lower interest rates again.

They included continuing credit restraint, a big reduction in the budget deficit or pronounced weakness in the M2 measure of money supply.

He also fractionally lowered the Fed's growth forecast for this year to between 1.5 and 2.5 per cent from between 1.75 and 2 per cent. The risks are now a "shade more towards recession than they were earlier in the year," he said.

Bond markets reacted badly, deciding Mr Greenspan and the Fed had changed their policy priorities away from tackling inflation to ensuring that growth continues even at the cost of more inflation.

"Some saw this shift as a sign the Fed was giving in to political pressure from the Administration," said Griggs and Santow, fixed-income analysts.

Bond prices fell about ¾ point in busy trading and the tone of the market failed to improve during the rest of the week. Other things bothered it along the way, such as the Treasury's announcement that it would borrow between \$62bn and \$66bn this quarter. This is nearly double the sum it forecast in May, making it the Treasury's biggest call on the market since the fourth quarter of 1985.

With the markets feeling less certain than they were about where Mr Greenspan stands, the yield curve is likely to continue steepening. Yields on short maturities could slip further later in the year if the Fed eventually lowers the Fed funds rate again. But the long end will probably drift back up towards 9 per cent as investors worry again about rising inflation.

The yield curve has already steepened markedly over the past month. Yields on securities maturing from three months to five years from now have fallen between 20 and 34 basis points. Yields over 10 years have been stuck at around 8.5 per cent.

Besides the inflation question, the markets are still troubled by Mr Greenspan's credit crunch. For some of the more negatively inclined market participants it has become his credibility crunch.

As recently as June 21 he had said there were no signs of banks tightening credit. On July 12 he said the squeeze was real enough to warrant the half-point easing in the Fed funds rate. On July 18 he told Congress there were "very real, unwelcome effects" on the economy. Worse, "the process of credit restraint may not have reached completion and some of its effects may not yet have been seen."

But testifying to Congress "he was unable to present any hard evidence of a squeeze," pointed out Mr Geoffrey Dennis and Mr Stephen King, economists with James Capel in London.

Mr Greenspan relied instead on comments such as "depositary institutions and other lenders have become more selective in extending credit" and that "Federal Reserve surveys of large banks support this sense that terms have tightened in particular areas and on certain types of loans."

Also missing are other types of hard evidence of a squeeze, such as an appreciating currency and falling stock prices, the latter because of a shortage of margin funds. Instead the Dow Jones industrial average is trying heroically to break through the 3,000 level.

The Fed's explanation that good credits were suffering along with bad "never seemed adequate and the market remains unconvinced that this was the only reason for the move," said Griggs and Santow.

An answer can be found in a less literal interpretation of the easing, argued Mr Robert Brusca, chief New York economist of Nikko Securities. "Mr Greenspan seems to be using the credit squeeze notion as a euphemism for the economy." It allowed him to slacken monetary policy a notch without "appearing to buckle in to Administration pressure to ease."

If Mr Greenspan sticks with hard-to-define notions of credit availability as a proxy for the economy, it will make it very hard for market watchers to figure out when he might ease again.

Many of them have decided the best guide is the M2 measure of money supply. "Any pronounced weakness (of M2) might represent greater restraint than is desirable this year," Mr Greenspan told Congress.

Growth of M2 slipped to 3.6 per cent at an annual rate in June, close to the bottom of the Fed's target range of between 3 and 7 per cent.If it drops below the range in coming months, the Fed could well ease again.

The market is far less sure of getting a further easing by courtesy of a budget pact.

If Congress and the Administration managed to cut the deficit by around \$50bn or \$60bn, Mr Greenspan said he would review policy. The chances of this happening are very slim given the huge political hurdles facing the budget.

But easing on those grounds would be highly undesirable since the economy's problems would remain concentrated on the fiscal rather than the monetary side, said Griggs and Santow.

"It is becoming disturbingly clear that those responsible for the fiscal mess we found ourselves in are now offering a great deal of unsolicited advice about what monetary policy should be. There is every good reason to believe that those offering this advice would do for monetary policy what they have done for fiscal policy."

Roderick Oram

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	8.00	8.13	8.19	9.92	8.00
Three-month Treasury bills	7.77	7.83	8.00	9.11	7.20
Six-month Treasury bills	7.84	7.90	8.02	9.37	7.18
Three-month prime CDs	8.05	8.13	8.27	10.35	8.18
30-day Commercial Paper	7.95	8.15	8.22	9.95	8.05
90-day Commercial Paper	7.90	8.00	8.12	10.05	8.15

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	100⅛	-1/32	8.42	8.42	8.52
20-year Treasury	106¼	[illegible]	8.63	8.56	8.60
30-year Treasury	102⅞	[illegible]	8.53	8.45	8.47

Money supply: In the week ended September 7 M1 fell \$7.5bn to \$810.2bn

NRI TOKYO BOND INDEX

December 1983 = 100	PERFORMANCE INDEX 19/7/90	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	145.86	7.23	145.85	142.89	143.47
Government Bonds	143.36	7.11	143.49	142.61	141.66
Municipal Bonds	148.14	7.19	147.97	144.46	144.69
Govt.-guaranteed Bonds	150.61	7.23	150.39	148.78	147.01
Bank Debentures	143.04	7.38	143.00	140.43	140.01
Corporate Bonds	149.04	7.36	148.80	145.98	148.03
Yen-denom. Foreign Bonds	155.02	7.59	154.83	152.27	153.34
Government 10-year†	6.83	–	6.78	6.88	6.60

† Estimated par yield

Source: Nomura Research Institute

UK GILTS

Marching out of no-man's land

THE GILTS market is now moving rapidly out of no-man's land, marching to the sound of the guns.

The end of the Government's buy-in programme last year left the market strangely quiet, and there was little certainty of renewed supply. Inflationary trends have made long gilts a poor bet, while values at the short end were propped up by the expectation of continued high short-term interest rates. All this is now set to change, perhaps rapidly.

The pound's strength has squeezed corporate profit margins. Entry to the Exchange Rate Mechanism of the European Monetary System should reinforce monetary policy, and perhaps allow an interest rate cut. Monetary data, released last week, showed weak lending and the long-awaited slowdown in retail sales seems to be materialising.

All these should improve demand for gilts, depending on how much good news is already in the market. What remains to be seen is how the supply of government securities changes.

Last week's figures for the Public Sector Borrowing Requirement showed the largest quarterly deficit for nine years, and provided the market with the clear prospect of a return to funding. At £6.5bn for April-June quarter, the PSBR looks unlikely to turn into a surplus of £7bn for the full 12 months as the Government has forecast. Several market makers cut their forecasts for the year, to between zero and £5bn, though some are still waiting.

The market is fairly certain that one question has been answered positively – whether funding will resume this year. Three key questions remain unresolved:

1. How much: This is determined by a set of mind-bendingly complicated criteria known as the funding equation, the principal element in which is the public sector surplus or deficit.

This will improve, given revenues from water and electricity privatisations, the return of money loaned to local authorities, the smoothing of expenditure over the year, and the firm expectation that central government's cash limits on expenditure will hold. Though supply expenditure is over target, at about 13 per cent per annum, it is not out of control.

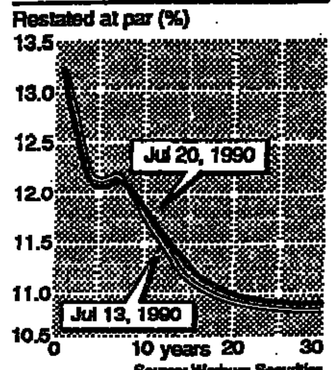
The outcome depends crucially on revenues. "The really bad news is yet to come," said Mr Peter Spencer of Shearson Lehman Hutton, on the basis of a slowing economy. Though the expenditure figures caught most of the attention last week, Greenwell Montagu said revenue growth is already slowing; if the economy continues to be caught in the vice of a strong pound and high interest rates, it may deteriorate further.

Foreign exchange intervention, which cannot be known yet, is the other main determinant of the funding requirement. The amount of net gilt sales or purchases by the banking sector influence the final figure, as does the amount raised by National Savings.

Simply put, the amount of

UK gilts yields

Restated at par (%)



Source: Warburg Securities

funding is an educated guess. The range of possibilities is from about zero to £5bn for this year.

2. What: The Bank still has a considerable amount of uncancelled stock on its books from the buy-in; this would more than account for the funding requirement. Much of the funding can be handled by trickling this out. If there is to be new issuance, there are at least three options:

- **Index linked stocks:** The prices of which are determined by inflation. This tops most analysts' list of possibilities. "It would mean putting their money where their mouth is, and increasing the costs of inflationary policy for a future government," said Mr Mark Franklin of Credit Suisse First Boston.
- **Shorts:** Assuming there are to be interest rate cuts, this would be an attractive prospect in terms of cost of funding, said Mr Nigel Richardson of Warburg Securities.
- **Ecu bonds:** The costs are low, they would complement the Chancellor's strategy for European Monetary Union, and would reinforce adherence to the European Monetary System. But they would be hard to reconcile with the need for sterling funds and would probably confuse the market.

3. When: "The timing is clear. The Bank gets its marching orders twice a year, and the next time is the Autumn statement," said Mr Spencer. There will be much harder information by then on how much has to be raised, and hopefully market rates will be lower, allowing funding to be done at lower cost.

But: "the electricity privatisation is in November; they won't want to fund close to that, or immediately after," said Mr Roger Bootle of Greenwell Montagu. Partly for this reason, other analysts expect funding much sooner.

The tactics of issuance are likely to be tightly interlinked with the overall economic and political strategy. Funding can complement monetary policy, said Mr Bootle, bolstering the pound and tightening policy at the time of ERM entry.

But underlying all the uncertainties is one fundamental doubt. A small return to funding can be accommodated with ease; but the fiscal prospects for next year also look poor. The Government's rapid move to surplus took the market by surprise; will its return to deficit do so as well?

Andrew Marshall

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHT	Issued	Bid price	Chg on week	Yield
ABBEY NATIONAL 8 7/8 93	150	99⅜	+¼	9.11
ABN 9 1/8 94	200	99⅝	+¼	9.16
AETNA LIFE & CAS 7 3/4 16	200	96¼	+⅛	8.05
ALBERTA PROVINCE 7 3/8 91	750	98⅛	+⅛	8.81
ALBERTA PROVINCE 9 3/8 95	600	101⅜	+⅜	9.02
AMERICAN EXPRESS 0 00	450	38⅛	+⅛	9.62
AMERICAN GENERAL 9 3/4 95	100	98	+⅛	10.20
ANHEUSER-BUSCH 9 1/8 92	100	100¼	+⅛	8.97
ASIAN DEV BANK 0 04	1000	29¼	[illegible]	9.10
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Issued	Bid price	Chg on week	Yield
SAS 10 1/8 95	150	102½	+¼	9.48
SASKATCHEWAN 15 92	150	110⅝	+⅛	9.24
SEAGRAM CO 8 1/2 96	100	94⅝	+¼	9.72
SEARS O/S FIN 0 98	300	46⅜	+⅛	9.96
SEARS O/S FIN 11 3/8 93	150	105⅛	+⅛	9.67
SKANDIA INTL 7 1/4 92	200	97¼	+⅛	9.10
SNCF 7 1/4 94	175	95¼	+⅛	8.85
SNCF 9 1/2 98	150	101⅞	+⅛	9.16
STATE BK STH AUST 9 1/4 93	100	100⅛	+¼	9.09
STATE EL VICTORIA 10 92	100	101⅞	+⅛	9.03
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC STRAIGHTS	Issued	Bid price	Chg on week	Yield
ASIAN DEV BANK 6 10	100	89	-½	7.03
AUSTRIA 4 5/8 98	100	88½	+½	6.60
COUNCIL EUROPE 4 3/4 98	250	87¼	+¼	6.87
DENMARK 3 3/4 91	100	97	-½	8.78
EEC 5 1/2 00	100	90½	-1½	6.80
EIB 5 3/4 93	100	97	-½	6.79
FINLAND 5 3/8 95	150	93½		6.82
JAPAN DEV BK 5 1/2 94	100	96	+1	6.79
MOUNT ISA FINANCE 5 3/4 94	100	91½	+2	8.44
NEW ZEALAND 4 7/8 99	200	86½	+½	7.02
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.

Closing prices on July 20

UK COMPANY NEWS

CH Industrials sells 22% Manganese Bronze stake

By Jane Fuller

CH INDUSTRIALS, the holding group hit by flagging activity in the UK automotive and building sectors, has sold its 22.3 per cent stake in Manganese Bronze, the taxicab and metal products maker.

CHI, which two weeks ago announced a 25 per cent fall in pre-tax profit for 1989-90 and gearing of 100 per cent, will receive net proceeds of £7.5m from the sale of the 3.67m shares.

The holding has been placed by Smith New Court and, according to Manganese Bronze, it had been bought by about nine institutions.

The CHI stake had, in the past, provoked some bid speculation.

Mr James Borwick, managing director of Manganese Bronze, said he was glad that the stake, "which had been overhanging the market," had been placed with institutions.

Family and friends have a 40 per cent interest in Manganese Bronze.

For the year to March 31, CHI took a profit share of £1.35m (£790,000) from Manganese Bronze. That compared with CHI's total pre-tax profit of £11.59m (£15.34m) on sales of £215.6m (£191m).

With interest charges totalling nearly £5m for the year and bank borrowings at £28.84m, Mr Tim Hearley, CHI's chairman, said the group planned disposals that would bring in about £20m. The aim was to reduce gearing to less than 50 per cent.

It had risen to a higher level than expected after the acquisition of Motor Panels, in the US, last August. Extraordinary costs of £9.6m related to factory closures and the sale of a furniture business had been one of the aggravating factors.

CHI's share price was unchanged at 58p on Friday and Manganese Bronze's shed 1p to close at 215p.

Sharp buys B&C stockbroker

By David Owen

THE DISPOSAL of British & Commonwealth Holdings' former businesses has continued with the purchase of Stock Beech, the Bristol-based stockbroker, by Albert E Sharp.

The deal will raise funds under the independent stockbroker's management to more than £2bn and should lift its client base to approximately 30,000.

Upon completion, the firm will have three offices in Birmingham, Bristol and London.

According to Mr Simon Sharp, chairman, the acquisition "presents an excellent opportunity for Sharp to expand the group's institutional stockbroking, venture capital and corporate finance businesses as well as enhancing the private clients' interests."

The amount paid for the business was "very nominal,"he said.

The Birmingham stockbrokers of Stock Beech are to transfer in due course to the Sharp office at Edmund House. "We will try very hard to retain the majority of people", Mr Sharp said.

Losses at Baldwin rise to £1.74m

Losses of Baldwin, which has interests in tour operating, printing and property, rose from £944,000 to £1.74m pre-tax for the half year ended April 30, partly reflecting the seasonability of the tour operations.

Turnover fell from £13.91m to £4.85m. However, while the tour operating market as a whole remained depressed, group bookings at end-April were some 24 per cent ahead of the previous year.

Overall, the directors said they were satisfied with the group's performance. With the outcome for the year expected to be in line with their expectations, they are lifting the interim dividend from 1.15p to 1.4p. Loss per share worked through at 6.92p (4.3p).

Last January, Brent Walker Breweries, a subsidiary of the Brent Walker Group, disposed of its 17.3 per cent holding in the company. In March, Augsburg Investments announced that it had raised its interest in Baldwin to 22.1 per cent.

Widney incurs £0.9m loss

WIDNEY, the Birmingham-based engineering group which was the subject of a recent mangement buy-in, incurred a loss of £923,000 pretax for the half year to end-March.

That compared with profits of £24,000 for the opening half of the previous year and with a loss of £1.1m for the full 12 months. The continuing activities incurred losses of £488,000 (profits £38,000).

Loss per share emerged at 5.69p (0.42p) and the interim dividend is being passed – shareholders received 0.5p previously but the final was omitted.

Mr David Cassidy, chairman, who took control of the company with Mr Paul Lines in February, said he was confident that the ambitious objectives they set themselves at the outset could be achieved.

He pointed out that the second half had started well and that Widney Eurocraft, which was loss-making, had been sold. He added that the July acquisition of Chadburns Holdings had provided a sound base for future growth.

The acquisition, together with healthy order books and a stronger management, made the outlook "very encouraging".

First half turnover totalled £9.19m (£10.04m) with the continuing activities showing little change at £7.08m (£7.19m).

FT Share Information Service

THE following changes have been made to the Share Information Service:

Additions: First Philippine Inv. Trust (Ord. & Warrants) (Section: Investment Trusts).

Spear (J.W.) (Industrials).

Deletions: Barrack Mines (Mines-Australians).

Bedford (William) (Drapery & Stores).

Carr Boyd (Mines-Australians).

International Colour (Electricals).

Long wait likely for Burton's property sale

By Maggie Urry

IT MAY take Burton Group, the fashion retailer, up to two years to sell its property development business, according to analysts. The Burton Property Trust subsidiary was formally put up for disposal recently, when Burton also announced the sale of its credit card business, for £182.7m.

The poor state of the property market, and particularly of the retail sector where most of Burton's investment has been made, could mean a complete sale of the business is not possible in the short term, though some parts are more saleable than others.

Burton's prime aim now is thought to be a reduction of gearing. Debt is well within its bank facilities, but gearing at the August year end could still be around 50 per cent. Burton also wants to rebuild relationships with its shareholders, who have seen their investments fall sharply in value.

Last Friday the shares closed at 100p, valuing the group at £559m. Without a sharp recovery in the price, the shares are expected to drop out of the FT-SE 100 index.

The group has vowed to return to its retail strengths. It is thought that once the balance sheet has been restored, Burton could go on the attack again, developing new chains or making acquisitions.

Further management changes are expected although they may only be cosmetic, followers of the company say. Sir Ralph Halpern, the chairman, is thought unlikely to leave. "Sir Ralph is a survivor," says one analyst.

● Next, the high street and home shopping retailer, is believed to be negotiating the sale of its Club 24 credit card business, possibly also to GE Capital, the buyer of Burton's financial services arm. Next is thought to want £45m for the business. It is also looking to offload its property side.

Tribune Trust

At June 30 net asset value of Tribune Investment Trust had fallen to 278.6p, against 294.1p at the end of December. In June 1989 it was 269.9p.

For the first half of 1990, net revenue rose from £1.79m to £1.98m, for earnings of 3.87p (3.49p) per share. The interim dividend is 1.6p (0.85p).

Demanding criteria for expansion

Vanessa Houlder reports on the plans of P&P to move into Europe

TEN YEARS ago, two social workers set up Pete and Pam Computers in their south London home. In pioneering days of microcomputers they had found they could make a profit by importing personal computers from the US to the UK.

From these amateurish beginnings the company has become one of the most professional of its type. Now headed by the ubiquitous Professor Roland Smith and sporting the more sober title P&P, it has shrugged off the intense competition and price wars in its sector while other players in the industry have shrivelled, and has become the largest micro computer services company in the UK with ambitions to be the most profitable company of its kind in Europe.

This goal motivated the £26.7m rights issue announced last week. After allotting some of this money to reduce its gearing which had been swollen by acquisitions and an increase in working capital, there will be funds for several European deals.

The logic of this move into continental Europe is threefold. It will give a service to the manufacturers which are keen to expand their distribution network throughout Europe; it will gain economies of scale by supplying several markets from a central warehouse, particularly as transport costs tumble after 1992; and it will be able to spread its technical expertise throughout the companies it buys.

FINANCIAL HIGHLIGHTS – Year to Nov 28 (£m)

	1986	1987	1988	1989	Six months to end-May 1990
Turnover	36	72	107	169	109
Pre-tax profits	2.1	4.1	7.5	11.1	6.8
Earnings per share	5.9p	11.5p	18.0p	20.8p	11.4p

The criteria for acquisitions are demanding. P&P is looking for cash positive companies operating in niche markets with 30 per cent gross margins, compared with the 19 per cent it achieved in the UK. It has already formed a bridgehead into Europe through the purchase of a couple of small Belgian companies last November.

Now it is focussing on the largest markets such as Germany, France and Italy; the fastest growing outlets like Spain and Portugal; and countries with big multi nationals, namely Sweden, the Netherlands and Switzerland.

Last month, it appointed a European acquisitions specialist and already 150 potential vendors have knocked on its door. The project has a sense of urgency since P&P reckons it has just nine months to find a suitable acquisition in France because the market is undergoing such rapid consolidation. Similarly, it must get into Spain quickly as prices are soaring month by month.

The competitive nature of these markets underpinned the desire to raise money from a rights issue. The need to dribble out shares in a placing when making an acquisition deterred vendors and irritated investors who were loth to buy shares on the market when they knew they would be available at a discount in a placing. "This rights issue will allow us to make acquisitions without looking over the City's shoulder," said David Southworth, managing director.

Will the undertaking not to raise money from the City for the next two years improve P&Ps stock market image? Mr Southworth complains that despite repeatedly producing impressive results, the company's rating has dropped by a third over the past few years.

Investors have an ambivalent attitude to P&P's success. On one hand they laud it for its success in reducing its exposure to the ferociously competitive personal computer distribution market from 60 per cent two years ago to 22 per cent today. P&P has fulfilled its promise to expand its high margin training and service businesses and concentrate on the more stable corporate end of the market.

Against that, P&P gets tarred by the same brush as the rest of the industry. Analysts fret that corporations will stop buying computer equipment as the economy slows down – although Mr Southworth argues they will maintain their spending to keep their competitive edge.

Roland Smith, ubiquitous chairman of P&P

Paradoxically, investors would like to know the effects of a recession on the company. "Nobody is going to invest in a company that has done well because they are waiting for it to make a mistake," says one analyst. Mr Southworth, however, believes that investors will come to appreciate its resilience in a difficult market. "At a time when other people are producing very disappointing results we must be doing something different," he said.

Victoria Carpet paying more on profit downturn

In spite of a reduction of nearly 29 per cent in earnings per share, the directors of Victoria Carpet Holdings feel it right to increase the dividend by almost 6 per cent.

They said with a market dominated by high interest rates and falling house-building the year ended March 31 1990 saw turnover fall 1.6 per cent to £38.88m (£39.53m) and pre-tax profit slide 26 per cent to £2.03m (£2.75m).

Earnings were 19.86p (27.86p) and the dividend is 4.5p (4.25p).

Exports continued to feature strongly and rose 30 per cent, but the directors said it was disappointing that, in a period of change and opportunity in Europe and elsewhere, the home market conditions were so inclement.

Capital expenditure continued at a high level.

McInerney calls for I£7m via rights

McInerney Properties, the Irish and UK building group, is raising I£7m net (£6.29m) through a deeply discounted 2-for-1 rights issue.

Major shareholders representing some 72 per cent of the capital are committed to the issue, which will involve some 36.8m shares priced at I20p (18p). In London the shares closed 12p lower at 40p.

Mr Thomas Hardiman, chairman, said in the 1989 accounts that difficulties in the UK were continuing to have a significant effect on group performance.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Berkeley Govett, Bullough, Rights & Issues Inv, Temple Bar Inv.

Finals- Black Arrow, Dalepak Foods, Menvier Swain.

FUTURE DATES

Interims-

Abbey National	Aug. 1
Edmond	Sep 11
Greggs	July 27
Higgs & Hill	Oct. 3
Noble Raredon	Aug. 2
Prospect Industries	July 27
Queens Moat Houses	Aug. 15
Shell Oil	July 27
Yeoman Investment Trust	July 26

Finals-

Aitken Hume International	July 24
CESC	July 24
Dale Electric	Aug. 1
Douglas (Robert M)	July 26
Optical & Medical	July 27
Smith (David S)	July 26

BASE LENDING RATES

	%		%		%
ABN Bank	15	Coutts & Co	15	Northern Bank Ltd	15
Adam & Company	15	Cyprus Popular Bk	15	Nykredit Mortage Bank	15½
Allied Trust Bank	15	Dunbar Bank PLC	15	Provincial Bank PLC	16
Allied Irish Bank	15	Duncan Lawrie	15	R. Raphael & Sons	15
● Henry Ansbacher	15	Equatorial Bank plc	15	Roxburghe Bank Ltd	15½
Associates Cap Corp	15½	Exeter Trust Ltd	15½	Royal Bk of Scotland	15
● B & C Merchant Bank	15	Financial & Gen. Bank	15	Royal Trust Bank	15
Bank of Baroda	15	First National Bank Plc.	16½	● Smith & Williamson Secs.	15
Banco Bilbao Vizcaya	15	● Robert Fleming & Co.	15	Standard Chartered	15
Bank Credit & Comm	15	Robert Fraser & Ptnrs.	15½	TSB	15
Bank of Cyprus	15	Girobank	15	Unibank plc	15
Bank of Ireland	15	● Guinness Mahon	15	● United Bk of Kuwait	15
Bank of India	15	HFC Bank plc	15	United Mizrahi Bank	15
Bank of Scotland	15	● Hambros Bank	15	Unity Trust Bank Plc	15
Banque Belge Ltd	15	Hampshire Trust Plc	15½	Western Trust	15
Barclays Bank	15	Heritable & Gen Inv Bnk.	15	Westpac Bank Corp.	15
Benchmark Bank PLC	15	● Hill Samuel	§15	Whiteaway Laidlaw	15
Brit Bk of Mid East	15	C. Hoare & Co.	15	Yorkshire Bank	15
● Brown Shipley	15	Hongkong & Shangh	15		
CL Bank Nederland	15	● Leopold Joseph & Sons	15		
● Charterhouse Bank	15	Lloyds Bank	15		
Citibank NA	15	McDonnell Douglas Bnk	15		
City Merchants Bank	15	Meghraj Bank Ltd	15		
Clydesdale Bank	15	Midland Bank	15		
Comm. Bk. of London Plc	15	Mount Banking	15		
Co-operative Bank	*15	Nat Bk. of Kuwait	15		
		NatWestminster	15		

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FINANCIAL TIMES STOCK INDICES

	July 20	July 19	July 18	July 17	July 16	July 13	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs.	N/A	79.30	79.36	79.49	79.73	78.94	84.20	74.13	127.4	49.18
Fixed Interest	88.06	88.07	87.99	87.75	87.81	87.34	92.91	83.80	105.4	50.53
Ordinary	1898.1	1888.7	1900.6	1912.9	1900.9	1880.1	1968.3	1653.6	2008.6	49.4
Gold Mines	181.9	181.2	179.4	181.7	184.4	175.7	378.5	167.9	734.7	43.5
FT-Act All Share	1176.37	1171.71	1177.97	1182.81	1178.63	1168.82	1226.83	1043.16	1238.57	61.92
FT-SE 100	2400.1	2387.3	2402.0	2415.0	2406.5	2382.2	2463.7	2103.4	2463.7	986.9

WORLD STOCK MARKETS

AUSTRIA

1990 High	1990 Low	July 20	Price Sch
5,400	2,885	Austrian Airlines	5,400
7,300	4,982	Creditanstalt	6,700
29,590	19,700	Erste Allgemeine	27,600
19,600	14,200	Jungbunzlauer	14,800
1,435	660	Laenderbank	1,330
14,230	8,350	OeMV	12,700
2,380	1,680	Perlmooser	2,000
1,400	885	Radex	1,336
3,400	2,230	Reininghaus	2,900
250	115	Steyr-Daimler	221
1,510	980	Veitscher Mag	1,302
770	425	Verbund	653
7,580	5,860	Wienerberger	6,750

BELGIUM/LUXEMBOURG

1990 High	1990 Low	July 20	Price Frs.
5,700	3,900	Arbed	5,350
3,520	2,800	B.B.L	2,910
15,700	15,100	Bank Intl. a Lux	15,350
15,000	14,300	Banque Gen. Du Lux	14,300
37,000	32,000	Banque Nat Belg	36,025
2,470	1,865	Barco	2,145
16,650	12,300	Bekaert B	12,300
9,690	6,930	Ciment CBR	9,690
5,990	4,878	Cobepa	5,700xc
6,030	4,950	Do. AFV 1	5,560
214	170	Cockerill	183
2,970	1,860	Colruyt	2,880
6,920	5,000	Delhaize	6,910
4,560	3,860	EBES	3,975
4,490	3,760	Do AFV 1	3,915
544	194	Fabrique Nat	194
1,454	1,194	GIB Group	1,454
1,430	1,072	Do. AFV	1,430
4,640	3,870	GBL(Brux)L	3,950
4,630	3,815	Do. AFV 1	3,925
952	746	Gechem	936
930	702	Do. AFV	900
5,900	4,400	Generale Bank	5,220

FRANCE (continued)

1990 High	1990 Low	July 20	Price Frs.
935	725	Beghin-Say	903
685	500	Do. Certs	620
3,480	2,695	Bongrain	3,350
683	525	Bouygues	624
1,534	1,190	CGIP	1,258
235	163.3	CMB Packaging	187
3,780	3,065	Carrefour	3,740
215	124	Casino	146.5
649	489	Cetelem	550
1,376	974	Chargeurs	974
1,813	1,241	Ciments Fr.	1,795
788	595	Club Mediterranee	620
432	338.5	Cofimeg	345.8
486	352	Cogifi	415
652	517	CGE	650
629	343	Coparex	595
262.8	213.5	CCF	230
1,420	1,219	Cred Foncier Fr	1,288
898	650	Cred Lyonn (CI)	820
1,591	1,183	Credit National	1,490
4,330	2,730	Damart	3,010
5,770	3,680	Docks de France	3,790
643	506	Dollfus-Mieg	511
768	485	Damez S.A.	760
2,750	2,015	Eaux (Cie Gen)	2,648
620	454	Ecco	520
1,083	880	Electrofin're	979
730	511	Elf-Aquitaine	703
521	406	Do. Certs	501
1,400	1,135	Epeda-Bertrand	1,151
3,020	2,400	Essilor	2,694
2,515	1,760	Eternit (Fin.)	2,310
2,690	1,960	Eurafrance	2,030
2,450	1,731	Eurocom	2,012
108.2	90	Euro Disneyland	97
4,920	3,611	Euromarche	4,150
2,029	1,630	Exor	1,709
221	176	Finextel	176
1,120	815	Fonciere Lyonn	960
2,700	2,240	Fromageries	2,300
1,812	1,201	GTM-Entrepose	1,730

INDICES

NEW YORK

DOW JONES	July 20	July 19	July 18	July 17	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2961.14	2993.81	2981.68	2999.75	2999.75 (16/7)	2543.24 (30/1)	2999.75 (16/7/90)	41.22 (2/7/32)
Home Bonds	90.94	91.08	91.00	91.12	93.04 (3/1)	88.49 (2/5)	—	—
Transport	1159.31	1172.63	1171.53	1187.59	1212.77 (6/6)	1031.83 (30/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	202.15	203.53	203.53	205.11	236.23 (2/1)	202.15 (20/7)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 3019.31 (3006.19) Low 2953.71 (2948.27)

STANDARD AND POOR'S

	July 20	July 19	July 18	July 17	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	361.61	365.32	364.22	367.52	368.95 (16/7)	322.98 (30/1)	368.95 (16/7/90)	4.40 (1/6/32)
Industrials	428.69	433.20	431.53	435.58	437.37 (16/7)	371.92 (30/1)	437.37 (16/7/90)	3.62 (21/6/32)
Financial	28.51	28.83	29.02	29.20	31.87 (3/1)	26.59 (27/4)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	197.65	199.38	198.83	200.49	201.13 (16/7)	178.43 (30/1)	201.13 (16/7/90)	4.46 (25/4/42)
Amex Mkt. Value	360.45	361.84	362.06	364.39	382.45 (5/1)	342.64 (24/4)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	455.28	458.18	460.82	464.48	469.60 (16/7)	410.72 (30/1)	485.73 (9/10/89)	54.87 (31/10/72)

	July 13	July 6	Jun 29	year ago (approx.)
Dow Industrial Div. Yield	3.62	3.71	3.74	3.63

	Jul 18	Jul 11	Jul 4	year ago (approx.)
S & P Industrial div. yield	2.87	2.90	2.92	3.17
S & P Indl. P/E ratio	17.29	17.13	17.00	12.85

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Storage Tech	4,792,300	25¼	-8¾
Wal-Mart	2,844,900	33½	.....
Am T&T	2,744,500	37⅝	.....
Exxon	2,549,700	48⅝	-1⅛
Philip Morris	2,510,908	50⅛	.....
Utd Telecomms	2,329,800	27¼	-½
GTE Corp	2,238,300	28⅝	-¼
Browning-Ferris	2,082,300	42⅛	-1½
Chase Manhattan	1,979,200	20¼	-¼
Upjohn	1,917,900	43⅛	-¼

TRADING ACTIVITY

† Volume Millions	July 20	July 19	July 18
New York	180.547	161.990	168.760
Amex	10.265	11.498	10.834
NASDAQ	(u)	182.563	158.989
Issues Traded	1,995	1,991	2,027
Rises	577	612	469
Falls	904	853	1,012
Unchanged	514	526	546
New Highs	51	31	33
New Lows	42	48	59

CANADA

TORONTO	July 20	July 19	July 18	July 17	1990 HIGH	1990 LOW
Metals & Minerals	3310.92	3307.86	3296.25	3359.95	3453.05 (4/1)	2850.80 (23/4)
Composite	3577.68	3574.94	3580.80	3613.39	4009.47 (3/1)	3334.20 (1/5)
MONTREAL Portfolio	1868.96	1865.43	1865.04	1880.74	2060.90 (3/1)	1720.25 (27/4)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	July 20	July 19	July 18	July 17	1990 HIGH	1990 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1601.5	1607.4	1615.5	1624.0	1713.7 (12/1)	1434.5 (30/4)
All Mining (1/1/80)	777.9	780.9	785.8	787.0	860.8 (5/1)	711.7 (2/7)
AUSTRIA						
Credit Aktien (30/12/84)	672.28	670.58	669.88	658.41	703.29 (19/3)	526.59 (2/1)
BELGIUM						
Brussels SE (Cash Mkt) (1/1/80)	6311.18	6266.34	6257.23	6262.11	6599.43 (12/1)	5568.16 (26/2)
DENMARK						
Copenhagen SE (3/1/83)	388.29	387.77	386.40	385.04	388.29 (20/7)	352.96 (25/4)
FINLAND						
Unitas General (1975)	534.8	533.4	533.8	532.7	677.3 (23/1)	532.7 (17/7)
FRANCE						
CAC General (31/12/82)	536.89	537.42	537.42	538.38	564.62 (30/5)	482.94 (26/2)
CAC 40 (31/12/87)	2030.60	2023.31	2029.60	2019.50	2129.32 (20/4)	1800.32 (26/2)
GERMANY						
FAZ Aktien (31/12/58)	826.53	832.32	832.07	818.04	832.32 (19/7)	732.71 (24/1)
Commerzbank (1/12/53)	2386.40	2402.50	2400.80	2359.30	2414.0 (3/4)	2151.5 (24/1)
DAX (30/12/87)	1947.43	1957.24	1966.04	1929.00	1968.55 (30/3)	1756.41 (24/1)
HONG KONG						
Hang Seng Bank (31/7/64)	3540.43	3523.58	3528.29	3463.94	3540.43 (20/7)	2738.24 (1/2)
IRELAND						
ISEQ Overall (4/1/88)	1664.22	1660.85	1645.40	1646.33	1893.10 (22/1)	1582.61 (2/5)
ITALY						
Banca Com Ital (1972)	745.45	745.17	746.02	736.20	763.52 (14/6)	646.73 (26/2)
JAPAN						
Nikkei (16/5/49)	32421.52	33055.62	33048.11	33172.28	38712.88 (4/1)	28002.07 (2/4)
Tokyo SE (Topix) (4/1/68)	2363.43	2393.08	2397.78	2407.31	2867.70 (4/1)	2058.82 (5/4)
2nd Section (4/1/68)	4399.56	4384.89	4402.08	4431.50	4477.16 (16/7)	3313.92 (5/4)
MALAYSIA						
KLSE Composite (4/4/86)	625.79	629.53	630.27	631.13	631.13 (17/7)	518.53 (2/5)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	271.9	270.3	270.5	271.8	271.9 (20/7)	240.1 (26/2)
CBS All Shr (End 1983)	202.5	201.3	201.5	202.4	206.3 (3/1)	184.2 (26/2)
NORWAY						
Oslo SE (Ind) (2/1/83)	862.39	858.15	859.02	862.79	862.79 (17/7)	701.67 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	883.16	880.48	882.22	897.17	1160.70 (21/3)	740.31 (6/6)
SINGAPORE						
SES All-Singapore (2/4/75)	443.03	443.36	444.37	446.32	446.87 (16/7)	401.34 (30/4)
SOUTH AFRICA						
JSE Gold (28/9/78)	1501.0	1521.0	1524.0	1548.0	2230.0 (16/1)	1322.0 (20/6)
JSE Industrial (28/9/78)	2948.0	2953.0	2958.0	2957.0	3211.0 (6/2)	2794.0 (25/4)
SOUTH KOREA **						
Korea Comp Ex. (4/1/80)	694.64	693.44	698.01	(c)	928.82 (4/1)	683.01 (16/7)
SPAIN						
Madrid SE (30/12/85)	305.17	303.90	303.45	308.10	309.74 (16/7)	248.17 (2/4)
SWEDEN						
Affarsvarlden Gen. (1/2/37)	1319.6	1318.3	1319.1	1321.5	1329.9 (5/7)	1127.20 (2/4)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	827.1	826.3	828.2	(u)	845.5 (13/7)	737.6 (27/3)
TAIWAN **						
Weighted Price (30/6/66)	5194.39	5013.05	4777.84	4818.41	12495.34 (10/2)	4524.55 (5/7)
THAILAND						
Bangkok SET (30/4/75)	1131.44	1107.68	1095.28	1064.09	1131.44 (20/7)	760.39 (7/2)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	538.1	538.7	539.4	571.0 (4/1)	468.3 (2/4)

**Saturday July 14: Taiwan Weighted Price: 4813.07. Korea Comp Ex. 689.19
‡ Subject to official recalculation.
Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX—1,000, JSE Gold—255.7, JSE 26 Industrials—264.3 and Australia All Ordinary and Mining—500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday July 20 1990

	Stocks Traded	Closing Prices	Change on day
Ajinomoto	20.7m	2,460	+40
Nippon Oil	20.5m	1,460	+20
Mitsui Mng&Smlt	18.9m	637	+4
Kurabo Indstrs	13.7m	1,120	-10
Fuji Heavy Ind	9.7m	731	+11
Tokyo Tekko	8.5m	3,980	+180
Nippon Lght Mtl	6.6m	1,150	-60
Teikoku Oil	5.8m	1,310	+30
Honshu Paper	5.4m	3,390	0
Japan Mtls Chm	4.9m	1,950	-20

FINANCIAL TIMES SURVEY

GROWING BUSINESSES

Monday July 23 1990

The past decade has seen a resurgence of small businesses in the UK, but the next few years will show how many of them can withstand high interest rates and more testing times, writes **Charles Batchelor**. Is the Government still as supportive as in the boom years of the 1980s?

The hurdles get higher

IF THE opening months of the 1990s are a reliable guide, the decade is likely to be a tough one for small and medium-sized businesses in Britain. In the immediate future, they face the prospect of continuing high interest rates and the introduction of the Uniform Business Rate, while in the longer term, there may be severe staff shortages as the supply of school-leavers dwindles.

None of these burdens falls exclusively on smaller businesses but they often lack the financial and management resources available to larger companies to survive such pressures. The worsening economic climate, which 3i, Britain's largest venture capital group last month called "the most serious challenge to the enterprise culture" has increased the already high rate of small business failures and threatens to undo some of the ground made up by smaller businesses in the 1980s.

The past decade has seen the resurgence of small business as changing attitudes in the 1970s were transformed into specific policy measures – the Enterprise Allowance Scheme, the Loan Guarantee Scheme and backing for enterprise agencies – in the 1980s. The number of VAT-registered businesses rose from 1.3m to 1.6m in the course of the decade while the numbers of self-employed (some already included in the VAT statistics) leapt from just under 2m to more than 3m.

The Government claims to be as supportive of smaller businesses as in the boom years of the 1980s. "Small firms remain a top priority for the Government," Mr Tim Eggar, the small firms Minister, said recently. But the small business lobby groups want more help for their members while academics like Mr Jim Curran, head of Kingston Polytechnic's small firms unit, believe such firms are less central to the Government's economic policy. Official support may be cut in the 1990s, he says.

Outlining his priorities in what he called a "state of small business" report in December, Mr Eggar said his main concern was businesses employing between 20 and 50 people. Businesses in every other category up to 1,000 employees had created jobs, but firms of that size had shed them.

Finance was not the main problem, Mr Eggar opined. What these businesses faced was a "people gap," a failure to gain access to the sources of advice and help provided by the business networks of chambers of commerce, business clubs, banks, accountancy firms and large companies which were their customers. All these organisations should make their expertise more readily available to smaller companies, Mr Eggar urged.

More specific help was called for in a report* on the barriers to growth for technology-based companies employing between 50 and 500 people. Published in June by the Government's Advisory Council on Science and Technology (Acost), the report said too few companies were able to grow large enough to exploit fully their technological potential without selling out to a larger company and losing their independence.

The main barriers to growth identified by the report were a lack of strategic management skills among managers, an inadequate supply of risk capital and the limited government measures to encourage smaller firms to expand.

The report's authors urged the Government to encourage corporate venturing, whereby large companies take equity stakes in small innovative firms; they wanted the Business Expansion Scheme to be refocused to help smaller technology-based companies and smaller companies to be given a share of government research and development contracts. The Government's response to most of the suggestions was lukewarm. Many of the problems of growth were "the unavoidable challenges in market, management and technology," it said.

Other recent initiatives by small firms lobby groups have had similar negative responses. The Forum of Private Business, with 17,400 members, has made several attempts to win support for a parliamentary bill allowing small businesses the automatic right to interest on unpaid bills. Small firms are owed nearly £80bn by large companies and government departments, but they lack the means to bring pressure on slow payers.

Another British lobby group, the Union of Independent Companies, which represents 300 small and medium-sized manufacturers, is pressing for the creation of what it calls a Business Development Board to provide cheap, fixed-rate, long-term loans to smaller firms along the lines of government lending in Germany and Japan. But the lobbyists have yet to convince the Government that small businesses deserve exemption from its anti-inflation programme.

In the crucial area of small business training, though, the Government has been more positive. Programmes were repackaged and relaunched in April 1989 under the Business Growth Training label with a first year budget of £55m and the target of helping 100,000 small business owners.

The Enterprise Initiative, one of the most successful of any of the small business programmes, is to be extended for three more years, it was announced last month. The initiative, launched for three years with a budget of £250m in early 1988, provides subsidised management consultancy help for small firms in subjects such as design, marketing, quality management and business planning. Nearly 36,000 applications for assistance under the scheme had been approved by the end of April.

Uncertainty does, however, surround the Training and Enterprise Councils (Tecs), which are being set up to deliver on a local basis training to firms of all sizes and special assistance to smaller firms. Concern has been voiced about the extent to which the Tecs will be dominated by larger businesses and the possible fragmentation of some training programmes currently run by the Training Agency.

In the private sector the banks have called a halt, temporarily at least, to the plethora of special small business accounts and other incentives launched in recent years to increase their share of the small business market.

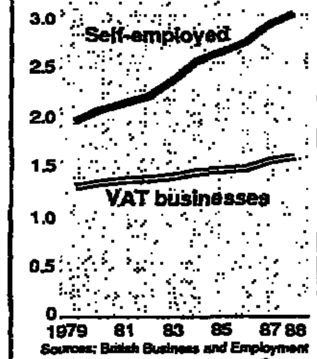
Meanwhile, the venture capital industry has faced a barrage of criticism over the past year for its concentration on management buy-outs and buy-ins at the expense of helping start-up or early stage companies. The British Venture Capital Association is working on a plan for a dozen new "seed capital" funds but says it needs government subsidies to get the programme off the ground. One hopeful sign in the venture capital area is an increase in the number of smaller regional funds which are reducing the industry's bias towards the south-east.

But with less than 2½ years to go until the formal completion of the single European market, there are fears that many smaller British companies are having to devote more time to the problems of their home market at the expense of developing strategies for Europe. The next few years will show whether the resurgence of small businesses was a phenomenon of the buoyant 1980s or whether they can withstand more testing times.

** The Enterprise Challenge: Overcoming Barriers to Growth in Small Firms.*

IN THIS SURVEY

Growth in small business creation



Sources: British Business and Employment Gazette

Charles Batchelor on the right course for the new company

Not to train may be lethal

PERSUADING the owner-managers of small businesses that it is worthwhile training either themselves or their staff is an uphill struggle. People starting up in business have many other things to think about as they battle to get themselves established. Once the business is up and running, they often cannot spare the time to take training courses.

A survey three years ago by the Forum of Private Business, a small firms lobby group, revealed that 80 per cent of respondents had had no business training.

Another survey published last February by the Institute of Directors, most of whose members run small or medium-sized businesses, showed a similarly bleak picture. More than nine out of 10 of those polled had not received any formal preparation for board responsibility.

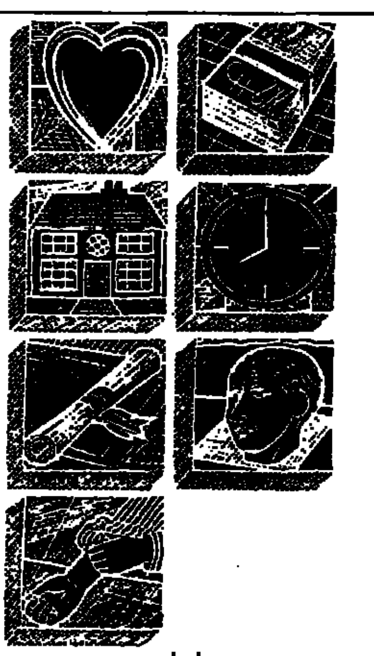
"Most small firms don't like training and don't do any," says Mr Paul Burns, professor of small business development at Cranfield School of Management. "Less than 2 per cent of firms undertake training and it accounts for under 1 per cent of company spending."

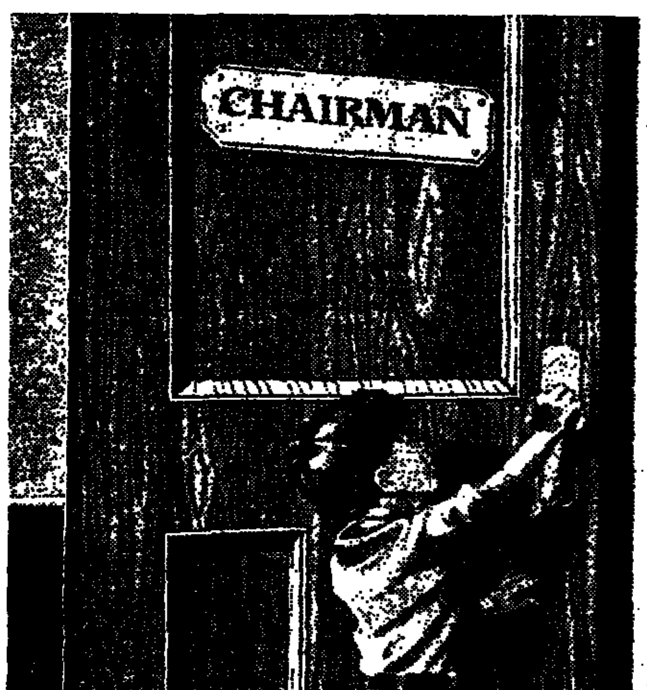
This attitude is surprising for there are strong indications that training can reduce the high mortality rates of small firms. One in three small businesses can expect to cease trading within the first three years compared with just one in 10 which goes down in the first two years if its founder has followed a training course.

Mr Kendall Chew, founder of Bullet Couriers, a Bourne End, Buckinghamshire company with turnover of around £400,000 and 12 full-time employees, is convinced that training has been good for his business. Mr Chew says training taught him to monitor his finances very closely. He contrasts this with the attitude of the owners of other local couriers which he has acquired.

Frequently, these companies had no up-to-date financial information on the state of their business, which may have explained why their own-

Continued on Page 2





Up-and-coming firms used to aim for the stock market. Why are some now reluctant?

The drawbacks of going public

A PUBLIC flotation, the traditional goal of most aspiring company founders, has lost a lot of its appeal over the past 2½ years. The stock market crash of October 1987; the very limited liquidity of many of the smaller Unlisted Securities Market (USM) stocks; and increasing disenchantment with the pressures of public company life have made many business-owners think twice about going public.

In straightforward financial terms it can now be more profitable to sell your business to a trade buyer – another, usually larger company – which is prepared to pay a premium because the purchase will take it into a new market or consolidate its position in an existing field. The stock market valuation will usually be considerably lower.

The yacht could no longer be treated as a company expense

Mr Kevin McNeany, founder and managing director of Nord Anglia Education, spent four months and £300,000 preparing his company for a USM flotation. Last December, on the day before the price of the issue was due to be announced, he decided that his company, which runs a chain of private schools and language schools, was being floated too cheaply.

"I wasn't willing to accept the price because it was 20 per cent less than what had been suggested before," says Mr McNeany, a former teacher who over 18 years has built up a business with turnover of £8.2m and pre-tax profits of £610,000. To the horror of his financial advisers, he called off the flotation.

Mr McNeany left his decision to withdraw until the very last minute but other entrepreneurs have not realised their mistake until after they have obtained a listing. Mr Andrew Lloyd Webber, the composer and founder of the Really Useful Group, and Mr Richard Branson, majority shareholder in Virgin, the entertainments group, were both so disillusioned with a public quotation that they took their companies private again.

The realisation among many business people that going public may be more trouble than it is worth has contributed to a decline in the number of new UK company flotations on the full, USM and Third Markets from 268 in 1988 to just 210 last year.

Venture capitalists like Mr Ronald Cohen, chairman of Alan Patricof Associates, say that in the present climate they do not regard a public flotation as a viable option for the companies they have backed. The markets do not put a realistic valuation on small companies, however well they may have done, while a shortage of market makers in the stocks of small listed companies contributes to a lack of liquidity.

But even before the market downturn of the past 2½ years, flotations had a number of drawbacks to set against the advantages of enhanced prestige, the realisation of part of the owners' investment and the ability to issues shares to finance acquisitions.

The chairman of one successful private company, a keen amateur sailor, decided he would rather not obtain a public listing when he realised his yacht could no longer be treated as a company expense.

"For quality of life, the privately-held company is ideal," comments one chairman who did, nevertheless, take his company public. "We were able to employ our wives in the company; give them company cars; set up schemes for our children's school fees and maximise the tax advantages of our pension scheme. You must have a very good reason to give all that up."

Separating the owners' private affairs from those of the company in the run-up to flotation can be a painful and complex process. Nevertheless, arrangements which might be quite allowable in a private business, where the owners and managers are the same people, will not be acceptable to outside shareholders.

There are likely to be many hours of gruelling discussion as the stockbrokers, the accountants and the lawyers examine the business's accounts. Directors must expect that all their statements, claims and figures will be checked against the company's records. One company chairman estimates he was called upon to answer no fewer than 300 questions on the contents of his draft prospectus.

Even when everything has been verified, directors may still be asked to give personal warranties that the statements which have been made are correct. Some directors balk at giving warranties because they feel this implies that they have not been telling the truth. However, warranties are a standard part of the flotation process.

Once the company has obtained its listing, its directors must accept that they will be under increased public scrutiny. One company director comments: "After being a family company for three generations we were suddenly responsible to some 400 shareholders." This may not prove too much of a burden as long as all is well but if something goes wrong the company will start to feel the pressure of City and press comment.

These commentators are likely to prove unforgiving if the company fails to show a steady improvement in its performance. Private companies can undertake costly investments which temporarily reduce profits knowing that the benefits will show through later. Shareholders in a public company are less likely to take a long-term view of a company's investment plans.

"You are on a treadmill," comments one chairman, who was delighted with his company's performance in its said: 'Let's open the champagne.' They said: 'That's great. Now tell us about next year'."

So what can directors do if they decide that a flotation is not an attractive option? If the reason for the listing was mainly to raise finance, then they might turn to a venture capitalist or a private investment group. Nord Anglia approached several venture capital groups and finally reached agreement with Charterhouse Development Capital to provide £3m in return for a 39 per cent equity stake.

Venture capitalists should be prepared to take a longer-term view of a company's prospects than uninvolved outside investors but ultimately the venture capitalists will want their "exit" – either by flotation or a sale. Owner-managers must weigh up whether the deal they can do with such an investor is financially more attractive than could have been achieved by means of a public listing – crucially, are they having to give up a larger slice of equity?

Venture capitalists should take a longer-term view

Charles Batchelor

PRODUCTION MANAGEMENT

A neglected discipline

MANY BUSINESS people are so enthusiastic about their products that they are keen to control every detail of design, manufacture and marketing. But that can prove dangerous, distracting entrepreneurs from the really crucial aspects of their business.

Manufacturing is a tricky task for the new entrepreneur and one that, in the early stages at least, can usefully be contracted out to people with more experience.

"The typical person starting a business is loath to give up control of the product because that is what he loves doing," says Mr Paul Burns, professor of small business development at Cranfield School of Management. "But the businessman who has 100 things to consider should concentrate his efforts on the half-a-dozen key elements such as marketing which will determine the success or failure of his business." At most, the start-up company should be involved in assembling the finished product because this gives it control of quality, Mr Burns suggests.

Sub-contracting out the manufacturing will also reduce the financial burden on the new business because buying equipment, leasing or buying a factory and employing staff place enormous demands on a business's finances. Providers of finance often prefer to wait until a business has a track record before putting up funds for investments in manufacturing capacity.

Not that dealing with sub-contractors is always simple. When Mr David Vint set up Vint Industries, just under two years ago, to make the Huggie, an oil-filled hot "water" bottle, he contracted out the rubber moulding work. But he felt his sub-contractors were charging him too much, so he decided to bring the work in-house.

The employees at the company's Crickhowell, South Wales factory took to the Huggie quickly enough because many had worked for industrial companies before, but Mr Vint still had to overcome a series of teething difficulties. In the first few months a couple of pumps on the rubber presses failed and the natural rubber which had been recommended by Malaysian experts proved unsatisfactory. Vint Industries had to switch to a synthetic rubber which matched its requirements.

By a process of trial and error and with the help of a management consultant skilled in manufacturing procedures, Vint Industries took about a year to get its production operations working reasonably smoothly. It now does much of the manufacturing as well as carrying out the assembly and final testing. The main bought-in items are electrical components.

Getting started in manufacturing may be the biggest challenge but, even when businesses become more established, managing production is likely to remain a major source of concern. As the product range expands and as volumes increase, managing the flow of materials through the factory becomes increasingly complex.

When Mr Bill Thomson joined Portico, formerly Clydebank Doors, as production manager nearly two years ago he was faced with a welter of problems. There was no proper system for storing deliveries of timber; doors were being made in large batches to justify the time taken to set up the machinery; but were then hanging around in the factory for so long that many were damaged by the time they reached final inspection. As a result, the company was making losses on a turnover of £1.2m.

Mr Thomson introduced a manual system for tracking the progress of the timber and the semi-finished doors through the factory. A written record was kept of incoming timber, when it went from stock to production and when the finished door went into final stock. Once this manual system worked satisfactorily, it was transferred to computer on specially-written software.

As a result of these improvements the company can plan its production levels. Doors are made in smaller batches so they spend less than a day in the machine shop compared with a week before and the value of work in progress has been cut to just £25,000, a quarter of previous levels. By reducing the volume of stocks Mr Thomson, now managing director, says he created enough room in the factory to start up a hardwood window production line. Portico, which employs 46 people, expects to be in profit by the year-end on turnover of £2.4m.

In recent years evidence of the success of Japanese companies in improving manufacturing efficiency has spurred British manufacturers to do more, though in many businesses production management is still a neglected discipline. Production managers are often chosen on the basis of time served in the factory and many are given no management training.

Production management still receives scant attention in business schools and in training programmes for smaller companies. It often pays less well than other areas of management and fails to attract the best people. Yet it embraces many areas of a company's operations, from the layout of the factory through the ordering of raw materials and components to despatch and after-sales service. Production management involves the choice of manufacturing process – production line, batch or one-off – as well as costings and how the workforce is motivated and paid.

The overriding principle is that a company takes an integrated view of its operations instead of treating the different elements in isolation. Purchasing might calculate that a particular bought-in component represents good value for money but if it is difficult to integrate into the production process it may increase total costs. Resolving problems of faulty or unsuitable components should not be left to purchasing but should involve shopfloor supervisors and staff who know in detail what needs to be changed.

Production management requires that attention be paid to a lot of seemingly insignificant details. The cumulative effect of getting these right can be a marked improvement in the overall profitability of the business.

Charles Batchelor

FINANCE

Banks' vested interest in success

THE enterprise culture of the 1980s saw an explosion in the number of self-employed people and small business start-ups. Most businesses are started by individuals with their own funds or those of family and friends. Banks are the first port of call for most smaller companies if additional finance is required.

The banks, quick to spot a potentially lucrative market, have developed their services for this growing sector of the economy. They hope that providing help to small firms in the difficult early stages of development will reap rewards when the businesses become more firmly established.

"We want more growing businesses to stay and mature. We have a vested interest to see them succeed," says Mr John Hackwood, assistant business development manager of National Westminster Bank's small business services division. NatWest estimates that 75 per cent of new business customers were previously personal account customers.

The range of products offered as standard to small businesses by most of the high street banks include start-up loans for new businesses and free banking services for 12 months to companies on the Enterprise Allowance Scheme. In addition, insurance packages and interest-bearing accounts for surplus company funds are the norm.

It still pays small companies to shop around for the banking services most tailored to their needs. The Royal Bank of Scotland, for instance, offers a Business Builder scheme whereby customers can get substantial discounts on goods and services such as office furniture, fax machines, personal computers and business travel.

Other banks have targeted certain types of small company. In May 1989, NatWest launched its Technology Unit, which operates through a nationwide network of specialist managers. Through the unit, the NatWest Seed Capital Loan Scheme provides venture capital of between £5,000 and £50,000 to developing technology-based businesses. The unit also operates a new technologies appraisal service, under which products or services of a highly technical nature can be assessed by outside experts for viability and marketability.

The TSB has chosen to concentrate its efforts on personal customers but it also offers help to professionals, such as dentists, doctors and accountants, by providing loans for those who want to set up their own practice.

There are many self-employed people on the TSB books, ranging from window cleaners to garage mechanics, and most run their affairs through personal accounts. This suggests there may be little difference between a small one-man band operation and a small business, the bank says.

As well as providing specialist products, expertise in the small business sector has also been built up among banking staff. Midland Bank employs about 500 staff in its 350 enterprise centres in England and Wales.

"Managers of these centres look at it from a businessman's point of view early on and then from a banker's point of view," says Midland Bank. "I think we've got more empathy with them than bankers had in the past."

The Midland is not alone in trying to address the needs of small companies. "In the past, the banks did not understand the needs of business," says Mr Richard Cracknell, senior business development manager at Barclays Bank.

In an effort to become more responsive to small business customers, Barclays has retrained 30,000 managers and senior staff. Almost all existing branches of Barclays offer personal and business services and 330 of the bank's 2,700 branches have been designated business centres.

Mr Cracknell thinks it is important that bank managers understand that small businesses require advice in areas other than banking, such as marketing and staff training. "There is enough information out there for the small business. His/her problem is accessing it," he says. Barclays offers a free grants advisory service in conjunction with Coopers & Lybrand Deloitte, the accountancy firm.

NatWest has secured a large slice of the small business cake – roughly one third of the total market – since it targeted the sector in 1982. It has more than 1m small business accounts which generate over 200m transactions each year.

As businesses develop, their banking needs change – a situation which the banks acknowledge. "Managers of maturing businesses need a different set of management skills – NatWest helps by making sure training is accessible, through promotions in Small Business Digest," says Mr Hackwood.

This quarterly publication, distributed free to 170,000 businesses, lists sources of help and advice for small and growing businesses. In addition, this year NatWest hopes to run 200 business workshops across the country, bringing together experts in the local community such as accountants and enterprise agency representatives.

Despite the best efforts of the banks, there still exists at grassroots level an impression that business customers are treated less favourably than personal accounts. "Businesses get charged for services that private customers get for free if they are in credit," says Mr Brendan Donnellan, general secretary of the Association of Independent Businesses.

The Forum of Private Business (FPB), a small firms lobby group with over 12,000 members, is preparing a comprehensive overview of the banks' relationship with small businesses. The report is due out in the autumn but according to Mr David Harrop of the FPB, "the changes made over the last few years don't go far enough, with very little to choose between the services on offer from the banks.

"Small businesses are perhaps changing quicker than the banks," he says. "Our members feel they get a fairly lacklustre, mediocre service." With one eye on the single market in 1992, Mr Harrop believes that small firms may be more prepared to consider changing banks. "If banks really want to get the business, they've got to shape up. There will be others waiting in the wings," he says.

Emma Walton

Not to train may be lethal course

Continued from Page 1

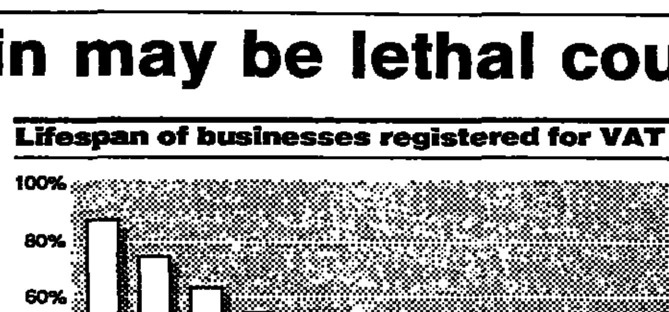
ers were selling out. One said his books were with his accountant and that they would not be available for two months. "He didn't even know if he was making money or not," says Mr Chew.

Over the years the Government, in the shape of the Training Agency, and the private sector providers of training have been honing the training courses which they provide to smaller companies. Efforts have been made to make training more relevant, practical and interesting.

Courses are provided in "modules" which allow business people to spend an evening or a day on subjects such as bookkeeping, computers and marketing and in the shape of longer, in-depth courses which allow participants to think through every aspect of their own particular business.

The most recent "repackaging" of the government programmes took place in April 1989 when Mr Norman Fowler, then Employment Minister, launched the Business Growth Training programme. This was intended to help 100,000 small and medium-sized businesses in its first year at a cost of £55m though a slower-than-expected start meant this number was not quite reached.

Lifespan of businesses registered for VAT



Business Growth Training is a catch-all title for a number of training programmes which were already in existence as well as some new ones. It comprises five options:

- The first is a diagnostic kit in loose-leaf book form which allows the business person to devise a business plan and identify and and develop the skills he or she may lack. Counselling is provided to help people through the kits.
- Option Two comprises three established schemes. The Private Enterprise Programme consists of 13 one-day seminars on such subjects as tax and bookkeeping while the Firmstart and Growth programmes provide detailed assistance spread over six months to new and established businesses.
- The third option is intended to help established small firms manage change by providing them with the services of a management consultant. It is his/her job to help the company devise a strategy for growth and arrange skill development and training for both the owner-managers and staff.

Mr Ian Quick, managing director of the commercial stationery business he runs with his two brothers in South Norwood, London, says his company broke out of a two-year period of stagnating sales and profits after calling in consultants under Option Three. "We were fire-fighting," says Mr David Quick, finance director. "The problems of the day were all-consuming. We were hands-on managers rather than directors."

Working with Mr Rob Lillystone of Hambledon Group, a Tunbridge Wells, Kent consultancy, the Quicks drew up the first business plan that their 15-year old company had ever had. Budgets were introduced for the business's five departments to give tighter control of spending and allow the creation of a staff bonus scheme.

The computer system was reorganised to provide detailed monthly analyses of the sales force's performance and of the overall financial performance of the business. This allowed the company to target its most important customers while transferring smaller customers to the tele-sales team. Profits improved to £50,000 in the year ended March 31 while turnover rose from £1.3m to £1.8m. Equally importantly, the previously high level of staff turnover was reduced.

- Option Four provides help for joint training schemes where several companies work together or with organisations such as chambers of commerce and trade associations.
- Finally, the fifth option helps innovative training initiatives which differ radically from those used by a business in the past.

As Training and Enterprise Councils (Tecs) become established on a local basis, they will take over the running of training initiatives which have previously come from the Training Agency in Sheffield. Locally-run schemes should prove more responsive to local needs. But some organisations such as colleges and business schools which "deliver" Training Agency programmes fear local initiatives may waste some of the marketing effort which has been put into getting the existing schemes known.

If this were to happen, it would be a setback for an already weak tradition of business training.

GROWING BUSINESSES 3

Two profiles: (left) LINN PRODUCTS manufactures hi-fi near Glasgow and **(right)** EBONY AND IVORY TOURS, based in London

Vinyl enthusiast ploughs lone furrow despite 'tax people'

NO SIGN stands at the entrance to Linn Products' factory outside Glasgow and the roadway leading to it is virtually single track. Yet the plant itself is a purpose-built structure designed by the Richard Rogers Partnership, also responsible for the Pompidou Centre in Paris. Inside is one of Britain's most highly automated manufacturing systems.

The lack of a sign and the narrowness of the roadway are the result of restrictions on the company by the local planning authorities at Eaglesham, Strathclyde. To Mr Ivor Tiefenbrun, the maverick figure who is managing director of Linn, they are both a hindrance and a symbol of the many other restrictions on the growth of medium-sized companies in Britain.

"A company like ours would be 10 times larger if we operated in the business environment of the US," Mr Tiefenbrun is fond of telling visitors – around 50 a week – who visit the plant. Linn's turnover last year was about £9.5m and it employs about 150 people.

Linn is one of the world's leading makers of high quality hi-fi equipment. It makes record turntables, amplifiers, speakers and tuners for people who want excellent sound reproduction. Although Linn equipment can be used with a compact disc player or tape deck, it believes fervently in the black vinyl record and Mr Tiefenbrun is one of the leaders of an army of enthusiasts convinced that the vinyl disc provides better musical quality as well as better value for money than the CD.

The plant itself, on which Linn spent £4.5m, about one year's turnover at the time it was built, is one for enthusiasts of manufacturing systems. Computers play key roles, controlling everything from design to stock and sales. The warehouse is automated and components for assembly are conveyed to the individual assembly workers by automatically guided vehicles. Linn long since abandoned the assembly line principle in favour of single stage build: each worker is given all the components for a product and assembles it himself.

Linn finds this quicker, easier to organise and more satisfying for the staff than the assembly line process. Automation reduces the need to maintain large stocks.

Linn equipment, which sells for between £1,000 and £10,000, is available in the UK through about 130 specialist hi-fi shops. But 75 per cent of Linn's output, measured by volume, is exported to countries such as Japan, the US and elsewhere, where it is often favourably compared with prestige US and Japanese products costing five times as much.

Mr Tiefenbrun is convinced that the vinyl disc provides better musical quality, as well as better value for money than the CD

Mr Tiefenbrun, who with his brother started the company in 1973, believes that Linn is technologically one of the most accomplished small companies in Britain. It has been profitable in recent years, earning about £500,000 in 1988-89 after deducting £800,000 for research and development. The company has largely paid off the £4m it borrowed to finance the new building.

Linn ploughs a lone furrow, insisting on technological excellence, pursuing a fervent belief in its particular field of hi-fi and making very large capital investments in computer and production systems. The company writes all its own software.

The search for perfection in automation which led to the insistence on total computerisation also spawned a project to build a new type of computer, which Linn claims to be the world's first object-oriented computer. In object-oriented programmes any problem that develops is confined to the sealed unit where the problem lies, rather than spreading to other areas.

The Rekursiv also uses a special object-oriented language devised by Linn which which enables all the company's functions – design, manufacture, stock control and accounting – to run on the same system. But a further facility, to enable more than one person, working in different parts of the plant, to work on the same data at the same time, needs more development.

Through a subsidiary Linn spent £3.5m on the Rekursiv and the Department of Trade and Industry bought a number for colleges and universities in Britain. But Linn has now decided not to proceed with developing Rekursiv partly, it appears, because of a problem with patenting the product in Japan, where 80 per cent of its potential market lies. Further finance to develop Rekursiv depended on patent protection.

"There will be a financial loss," says Mr Tiefenbrun, but does not quantify it. However the company plans a further big investment in computers and in robotics to raise throughput and "use our people at a higher level."

Mr Tiefenbrun believes that while Linn is growing at a satisfactory pace (though high interest rates are holding back its sales growth in the UK this year to 16 per cent compared with the target of 30 per cent) it ought to be much bigger and for this he blames a variety of enemies which coalesce into the British economic and governmental system. He cites long delays in obtaining planning permission to build the plant at Eaglesham, which held up the growth of the company for several years.

The fire authorities insisted on seven important design changes during construction of the plant, which came on stream in 1987, leaving him with enough water on site to run a distillery and arrangements for fire tenders that treat the single storey unmanned store as if it were a six-floor building.

The planning restrictions, also resulting in the absence of the sign and in the narrow roadway, contrast, Mr Tiefenbrun says, with the speed and ease with which large foreign multinationals are able to set up manufacturing plants in Scotland. He has refused to compromise with the authorities: "Some people say I should have made friends with politicians or even joined the freemasons. But that is not my way."

He believes that the Inland Revenue conspires against business success for medium-sized companies through its relentless pursuit of information, much of it trivial. As a fully computerised company, Linn is particularly vulnerable to requests for detailed information.

A particular blow was the decision by Mr Nigel Lawson when Chancellor of the Exchequer to remove tax relief on entertaining foreign customers, particularly when they are in Britain. This, says, has reduced Linn's foreign sales by one-third. The abolition of tax relief on capital investment is considered a further blow. "The tax people are running the country with petty vindictiveness," he says. "They always go for the successful companies."

Linn has its own high quality niche. But the antipathy to manufacturing in the British business environment – the UK has not created a single substantial manufacturing company in the past 50 years – leads Mr Tiefenbrun to conclude that Britain will in time become like Egypt, where millions of people have to be employed in pointless bureaucracy because there is nothing else for them to do.

James Buxton

How Ms Cameron exploits potential of ethnic market

CHERYL CAMERON'S gentle, relaxed manner and mellow American accent give prospective inquirers the impression that each is special and she has all the time in the world for them. Her earlier profession was as an actress. For the truth is that time is something she never has enough of.

Aged 42, Ms Cameron is director of London-based Ebony and Ivory Tours Ltd. Launched in March 1989, it offers tour management facilities for groups and individuals holidaying in Britain.

Like many people with a young company, she finds one of her greatest problems is finding time both to manage the business she has attracted and generate new business. "I work between 16 to 18 hours a day and do a seven-day week. When there's a tour running we operate a 24-hour service. Slotting in time to relax is difficult and I certainly don't have time to be ill," she says.

She has learned to concentrate on no more than a handful of projects at any one time. Nor does she try to do everything herself. Concurrently, she may have up to 10 freelance tour managers out handling groups. She also employs a full-time administrative manager and, when necessary, a temporary manager. "You have to spend money to make money. I get someone in to get the backlog off my shoulders so I can move forwards," she says.

To distinguish her business from the 60 or so other destination management companies in London, Ms Cameron makes a speciality of the Afro-American market in the US.

She recognised the potential of this market when working as a tour director for American groups holidaying in Britain and decided to set up in business on her own. She found that black Americans were pleased to be greeted by a fellow black American, were surprised to find their ethnic culture in Britain and wanted to know more about it. "I was re-organising their London schedules, taking them to see black theatre companies, restaurants and art galleries."

Black Americans also appeared to have more disposable income than their white compatriots and Ms Cameron's commission rates went up by an average 20 per cent. "I realised this was a market which needed catering for," she says.

Cheryl Cameron, director of Ebony and Ivory Tours

Attracting business from America involves frequent trips there to build links and promote the company. She has an associate company, Windsor Travel in Los Angeles, and agents on the East Coast. She tries to keep each trip to just one week. "They're an expensive overhead and one I'd like to cut back a little," she says.

She gained initial funding from the Enterprise Allowance Scheme as well as a cash injection of £5,000 from her co-director Mr John Conran. The first year turnover came to £38,000, allowing the company to break-even.

Ms Cameron is a member of the Inter-American Travel Agents Society (ITAS), a US national organisation for black-owned and operated travel agencies. She persuaded it to hold its 1989 conference in London, at the same time showing the agents the "alternative" ethnic London which their clients could enjoy.

She is also a member, by invitation, of two US black associations – the National Association of Black and Minority Chambers of Commerce and the National Coalition of Black Meeting Planners. Through membership of these organisations, she hopes she can encourage more of the black convention and incentive travel market to hold its events in the UK.

Ironically, although targeting the American market, 60 per cent of her first year turnover came from the UK with approaches from companies which had heard of Ebony and Ivory Tours by word of mouth. "I find we've diversified quite a bit and keeping on track is difficult," she says. She would like to see 60 per cent of turnover come from the US because in the long term, "that will be the most profitable business."

"The main thing is being decisive enough so you control the business and it doesn't control you"

Although Ms Cameron admits that "the areas we initially intended to cover have changed quite a lot," part of that has been in response to market conditions. High US interest rates are causing some would-be travellers to stay at home. In an attempt to gain more business out of a depressed market and to improve cash flow, Ebony and Ivory Tours has just launched an individual travellers package. Flexibility, she believes, is important, though "the main thing is being decisive enough so you control the business and it doesn't control you."

Since all prices are quoted and paid in sterling, to date the company has not suffered from fluctuating exchange rates between the dollar and sterling. However, "to lessen sales resistance," the individual travellers package is quoted and paid in dollars. Ms Cameron realises that the company is now vulnerable to swings in exchange rates.

Before setting up Ebony and Ivory Tours, she attended training courses in accountancy, selling and negotiating and is about to go to a seminar for women on how to deal with business meetings and businessmen who, she finds, are "more aggressive". While the courses have helped, she says the job is "a constant learning curve. For example, I've found it takes at least two years to get a tour package off the ground. The first year you find out what does and doesn't work and then refine it for the second year. Then word of mouth recommendations start coming in."

Learning by experience can be detrimental to the business, as Ms Cameron found with her marketing programme. "I thought the autumn was a good time to do it last year but it was too late and I missed some tours. I'm now marketing for 1991 and have already got some bookings."

Image and the ability to make a good impression are all-important in the travel business. Ms Cameron has not found that working from her London home has been a handicap, though she does try to organise meetings in hotels where prospective clients can view the facilities. She is, however, hoping to move to office premises at the end of her second year.

The unusual nature of her business and her abilities has not gone unnoticed. Her company recently won the National Westminster Prize for Enterprise for the London region and came second in the national finals, gaining a cash injection of £4,000. Ms Cameron has also just been named International African-American Business Woman of the Year by Dollars and Sense, a national US publication.

Hester Thomas

ENTERPRISE AGENCIES

Grassroots need for advice

MANCHESTER Business Venture, the enterprise agency which is housed in the same offices as the north-west's biggest chamber of commerce, has adopted an outreach approach to stimulating small business growth in the inner city.

Five months ago it opened a branch office in the Cheetham Hill area, which has Manchester's broadest ethnic mix. The idea was to make advice and counselling more accessible to some of the people who might need it most. Has it proved justified?

The branch office is a shopfront and the £35,000 that the experiment will cost in the first two years has come from the Government's local city action team, Manchester City Council and the private sector.

Mr Mike Davis, a partner with Ernst & Young who is the agency's chairman, says that so far Cheetham Hill has handled nearly 100 serious consultations, many of them from people who would have not otherwise come forward.

He thinks it shows the continuing need for the agencies at grassroots level. On such evidence, anyone who thinks they have run their course and should evolve into something else is almost certainly wrong.

The agencies first appeared in the late 1970s to advise people on how to start, run and grow small businesses. They were a "bottom-up" initiative, responding to demand from would-be entrepreneurs who had nowhere else to turn. The Government eventually embraced them and promoted them hard during 1983-86 as part of its job-creation drives.

East Europeans trying to foster the growth of entrepreneurship are interested

There is now a national network of more than 300 of them under the umbrella of Business in the Community (BiC) and many have become sophisticated consultancies. But the Cheetham Hill experience suggests that help at the rawest of levels is still required in many places.

Significantly, the agencies are now being looked at by people in eastern Europe trying to foster the growth of entrepreneurship in formerly centrally-planned economies. In Hungary and Czechoslovakia self-employment was barely allowed and the average size of payroll in state-run industry was about 4,000 people.

Their problems in overcoming bureaucracy and a dependent culture are seen as only different in degree from those in Britain about 12 years ago, when the rate of self-employment had fallen to only 9 per cent of the workforce and the business world generally was geared to smooth relations between government, big employers and trade unions.

It is access to working capital and advice that many east Europeans see as their prime needs to encourage small and growing businesses. In Britain, the two came from a more relaxed attitude towards business lending by the clearing banks and the parallel development of enterprise agencies to ensure that borrowers always had a helping hand within reach.

The network of agencies has now started to enter an important second phase of evolution. This is concerned with achieving national standards of consistency in the way they work, as well as ensuring that services are not needlessly duplicated.

The arrival of training and enterprise councils (Tecs) is influencing this, since they will have the power to contract out enterprise training and the agencies will in most cases be among the obvious candidates to bid for it, earning income in the process.

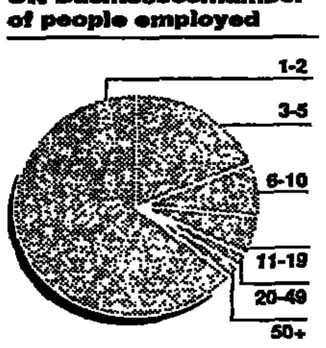
Last month therefore saw national quality control reaching the agencies, with one awarded a BS5750 certificate and another gaining a new type of accreditation charter being pioneered by BiC.

UK BUSINESS REGISTRATIONS
Figures in thousands

	Registrations	Deregistrations	Net change	Stock at end of year
1980	158	142	16	1,305
1981	152	120	32	1,337
1982	166	145	21	1,357
1983	180	145	35	1,392
1984	182	152	30	1,422
1985	182	163	19	1,441
1986	191	164	27	1,468
1987	209	167	42	1,510
1988	230	166	64	1,574
1980-88	1,650	1,365	285	1,574

Source: Department of Employment

UK Businesses: number of people employed



Source: Dept of Employment

BiC's scheme is being backed by the clearing banks because they see it helping them assess risk. If the quality of the agencies' counselling is assured, the banks can trust the agencies' evaluations of the business plans brought to them by small businesses.

Mr Brian Crangle, chief executive of DonBAC, the Doncaster agency which has got BS5750 approval from the British Standards Institution, says that it is also going to help him sell training services via courses, seminars and consultancy to the local Tec.

The Institution checked the agency's counselling manuals and procedures for consistency and quality, and then registered DonBAC as a quality assured organisation for a fee of £2,500, which was paid by sponsor company John Carr, a member of the Rugby Group.

DonBAC is now selling its manuals to other agencies at £250 a time, including a day's consultancy by Mr Eric Marshall, a former quality assurance manager with British Rail, who was seconded to the agency to help pilot it through the recognition process.

The network is trying to achieve national standards of consistency

However, there is some worry at BiC in case a rush for BS5750 causes confusion with BiC's own quality accreditation charter.

Mr Tim Walby of BiC sees BS5750 as a "gold card route" which all agencies may not need. He says that counselling is the central and critical feature of every agency and that getting that right is paramount.

"Our charter is pretty basic stuff, but it is trying to set common standards through the country," he says.

The charter promises small business clients a combination of competence and ethical practice, with monitoring of the performance and capabilities of counsellors, as well as of the agency itself. It also embodies a need for appropriate guarantees of professional indemnity insurance, so that clients do have some sort of comeback if the need arises.

Standards are checked by assessors, such as large firms of accountants, who carry out a non-financial audit of what any agency can do and how well and consistently it does it from case to case, as well as compared with its counterparts. The agencies pay £250 for the assessment, with the balance of professional fees involved provided by the clearing banks backing the scheme. Each BiC's regional director will also make a general assessment of each local agency in his or her area.

Meanwhile, Merseyside's nine enterprise agencies have embarked on another experiment by launching their own umbrella organisation, Mentor. The idea is to help ease confusion among clients and sponsors and to sort out gaps and overlaps in services.

The Government's Action for Cities programme is paying half of the £65,000 first-year running costs. IBM and Barclays funded an initial study of how to solve the problems and Mentor's other supporters now include United Biscuits, and Lloyds, Midland and NatWest banks. BAT and Royal Insurance are seconding full-time staff and Mersey Docks and Harbour Company is providing offices.

The scale of private sector support indicates the seriousness with which the experiment is being taken.

Mentor's chairman Mr Bill Appleton, a former senior partner with Deloitte Haskins & Sells, says that the agencies' role is especially crucial in economically difficult regions.

Merseyside, for example, still has pockets of more than 30 per cent unemployment and in some areas self-employment accounts for only 4.5 per cent of jobs.

Indeed, since self-employment accounts for 16 per cent of European Community's working population but is still only 12 per cent in Britain, many would say that this indicates a continuing grassroots need for advice. More branch offices like Cheetham Hill's may be one answer.

Ian Hamilton Fazey

GROWING BUSINESSES 4

Roderick Oram in New York (left) and **Haig Simonian** in Milan (right) look at how small companies get bigger in the US and Italy

Cult of the entrepreneur

FOR THE US, the 1980s was the decade of the entrepreneurs. Some 7m businesses, many of them small, were created during one of the longest periods of economic expansion in the nation's history.

The surge was "an affirmation of the US's entrepreneurial culture," says Mr Tom Grey, chief economist of the Federal Government's Small Business Administration.

"There's much greater public awareness that entrepreneurship has created almost all the growth in the US in the past decade," adds Mr Dan Garner, national director of entrepreneurial services at Ernst & Young, the accountants and management consultants. "It is no longer a stigma to be an entrepreneur, as it was sometimes in the past in the US."

The US is probably better equipped to nurture new companies than most other countries. Its prosperous economic system means, for example, people starting companies can tap large pools of capital ranging from personal savings and private investment funds to banks and public markets.

Perhaps psychological factors are important. "People are encouraged to try new things, to innovate. If you make a mistake, just try something different," Mr Garner says.

Even the bankruptcy of a business is often no bar to an entrepreneur getting a chance to build another. "Many people in the venture capital community consider bankruptcy a positive, not a negative, if you have learnt from your mistakes," he adds.

What determines whether a newly formed small business succeeds or fails? Long hours, hard work and good service were some predictable factors uncovered by the National Federation of Independent Business in the first nationwide research project on the subject, published last October.

The fate of some 3,000 small businesses started in the mid-1980s was scrutinised. Overall, 77 per cent survived during the three-year study. But there was a slightly higher survival rate for companies whose owner-managers worked 60 to 69 hours a week and a lower rate for those who worked shorter – or longer – hours.

Start-up capital was $20,000 or less in 50 per cent of the cases and more than $100,000 in only just over 10 per cent of the companies. In general, higher capital meant a somewhat better chance of survival.

About 25 per cent of the capital came from the entrepreneurs' personal resources, another 25 per cent from their friends and family and 45 per cent from lending institutions such as banks. Outside investors helped only one in 10. There was negligible use of institutionalised venture capital or government programmes to help finance start-ups.

Growth in early years was financed largely by retained earnings although outside sources such as trade credit and bank borrowing became more important as the companies established track records.

Advice for both new and established small companies is readily available from the accounting and consulting professions. On the government side, state and local agencies have been taking a more active role in helping small business in the past five years. The federal government has been less involved. In fact, President Reagan made two attempts to disband the Federal Small Business Administration.

"In general, the rationale for supporting small business is clearer to governments now than before," says the SBA's Mr Grey. "Programmes take every form you can think of."

Making it easier for companies to get help has been a dominant trend. Many local and state governments are developing "one stop" centres where entrepreneurs can get all they need, from licences to market information and professional guidance.

More emphasis on exports is one area that many government bodies are pushing. Small businesses already account for some 20 per cent of US exports but there appears plenty of potential for growth. In some cases companies must export because theirs is a small but truly global market. Rather than tackle the complexities of international trade alone, many seek joint venture partners abroad or try to license foreign production.

More government bodies are also getting involved in financing small business. Actions range from the indirect and passive such as tax breaks to more active such as helping to establish venture capital funds.

Letting state employee pension funds hold loans or stakes in small companies is an important psychological and practical step that some states have taken in recent years.

For all the activity at the local level, the federal government remains involved in small business through the SBA. It is seeking from Congress, for example, a 15 to 20 per cent increase in its funding for small business loans, typically to established companies, in the coming fiscal year.

But overall it is an agency with poor morale and uncertain sense of its role. Tackling those ills has been the prime goal of Ms Susan Engeleiter, its head for just over a year. A young Republican politician from Wisconsin, she has won some support from small business organisations which feel she understands their needs.

Translating them into proposals and winning the political battles necessary to turn them into programmes has proved harder. One problem has been the slowness of the White House in coming up with a nominee for the post of general counsel in the agency's advocacy office. The post is a key one for lobbying Congress.

But whatever the particular strengths or concerns of the US small business sector, many factors are common to those in other countries, says Mr Doug McLaughlin, marketing director of the National Federation of Independent Business.

While visiting a British small business organisation several years ago, he concluded that "a small business person is a small business person wherever you go. Close your eyes, take away the accents and the concerns, problems and gripes are the same."

Pressure on the labour front

IF West Germany's *Mittelstand* (small business sector) is the backbone of that country's economy, then small and medium-sized businesses constitute by far the bulk of the Italian body economic.

Not only do small and medium-sized enterprises account for a high proportion of the country's gross national product, but they are largely responsible for its famed flexibility and speed of response. A recent survey found that over 95 per cent of the 130,000 members of Confindustria, the Italian employers' federation, are small businesses, while the sector accounts for over 80 per cent of employment in the country's manufacturing and service industries.

However, even in Italy, small business has its problems. Red tape makes setting up a company something of an endurance test; high interest rates have made borrowing dear; and while inflation is now on the wane, the current rate of around 6 per cent is well above that in France and Germany.

And the current strength of the lira in the European Monetary System presents exporters – often a key element in the Italian small business picture – *with a new challenge.*

Despite the devaluation as part of last January's measures, which took the lira into the narrow 2.25 per cent EMS fluctuation band from 6 per cent before, Italy's currency has been buoyed since then by the country's relatively high interest rates. Along with greater international confidence in domestic economic management, the lira has had a tonic. Its strength against non-EMS currencies has been even more striking, with a climb of over 20 per cent against the yen.

The inter-relationship between small business and foreign markets is often intimate. In the wealthy North Italian province of Bergamo, the biggest employer, Italcementi, has 3,573 staff. By contrast, most of the companies which contribute to Bergamo's wealth have fewer than 200 employees. Yet, together, such small enterprises managed to export no less than 50 per cent of the goods they produced.

Getting to grips with the mass of small and medium-sized companies which constitute the sector is not always easy. Seldom is the problem more evident than for the foreign acquirer or merchant bank trying to develop its activities in Italy.

While the image of rampant tax evasion may be exaggerated, the fact remains that an analysis of many small companies' "official" books may reveal less than the truth. Reconciling the gap between a company's declared sales and those actually claimed by its owners is one of many problems faced by the growing number of specialist financial advisers trying to gain new business in the small company sector.

For the rate of concentration has been gathering pace as the first post-war generation of Italian entrepreneurs has retired or died off and heirs have not always been interested in carrying on the business. The process has triggered not only growing interest in management buy-outs of former family firms, but also greater rationalisation within industrial sectors.

The importance of foreign markets, greater awareness of the role of advertising and promotion, and increasing producer responsibility for product liability, have all encouraged concentration. And even where small businesses have not wanted to sell out, there has been a marked growth in the number of *consorzi* (consortia), which group a number of businesses in the same sector in a given region.

The tendency has been encouraged by local chambers of commerce. By allying themselves for specific purposes like marketing or joint representation at expensive foreign trade fairs, small local companies have been able to exploit certain economies of scale without losing their independence.

Although this year has brought welcome news on interest rates, which are likely to remain stable, if not fall further, there has been a nasty surprise in the Government's decision to extend the provisions of employee protection law to companies with fewer than 16 workers, which were previously excluded.

That has caused an outcry among many smaller businesses, which have complained that the new ruling will burden them with substantial extra costs as they lose the flexibility to trim workforces at will or fire staff who are not performing to standard.

Meanwhile, skills shortages are becoming increasingly apparent for some firms, especially in the buoyant north. Unemployment in the neighbouring provinces of Bergamo and Milan is currently 4 per cent, and just 7 per cent for the Lombardy region as a whole.

That means that local companies are finding it more difficult to find qualified staff, irrespective of their size. With Italian wage costs already rising appreciably faster than in the main competing markets of France and Germany, Italian entrepreneurs are becoming concerned about losing competitiveness.

Addressing Confindustria's small business panel on June 20, Mr Sergio Pininfarina, the federation's chairman, highlighted declining competitiveness as the biggest challenge for Italian business at present. Unit labour costs in Italy rose 7.7 per cent last year, against 4.5 per cent in the UK, 2.4 per cent in France and zero in Germany. The trend has continued in the opening months of this year, with a 1 per cent loss of competitiveness against the European Community as a whole and 2 per cent against Germany, he said.

With the latest EMS move, the pressure has further increased, as Rome has been robbed of its traditional recourse of letting the lira slide. As a result, employers are looking to wage restraint to help them overcome their difficulties. But, as warning shots have already shown, it could be a hot summer ahead on the labour front, from which small businesses may not escape unscathed.

Ian Hamilton Fazey on where to turn for help

A way through the maze

HELP FOR small and growing businesses is itself a problem. There is a lot of it and this alone stops some people even bothering to look. How then to find a way through the maze?

Enterprise agencies remain the best starting point. The first were set up 12 years ago because would-be entrepreneurs had nowhere to turn to for advice on how to set up a small business.

Although the role of the agencies is still developing and many have to sort out their relations with the new training and enterprise councils (Tecs), they are now central to the provision of help and advice.

One characteristic all agencies share is that they are part of the informal network of professional services and advice into which small businesses can tap. Accountants, solicitors and bank managers all know them, as do local authority industrial development officers and civil servants.

They are therefore one of the best ways to get into the network. Most are able to take the legwork and brainwork out of searching for where to go for the best advice, saving time and worry for small business people wondering whether they are on the right track.

Of course, the network can be tapped anywhere. Many small businesses will naturally turn to their accountant as a starting point and the Institution of Chartered Accountants wishes more would do so.

The point the institution makes is that accountants acting for small businesses are professional advisers who – because they are paid by the businesses which use them – are ethically bound to do their best in their clients' interests.

This may not coincide with the interest of the other person to whom many small business naturally turn – their bank manager. Bank managers are nowadays well trained in the needs of small businesses but there is a natural conflict of interest if their bank is the main lender of working capital to the person seeking advice, if that person is in trouble.

One highly experienced venture capitalist in northern England says that the banks are now panicking about what an economic downturn might do to them if too many businesses fail. Overdrafts are being restricted or even called in. He believes that the banks' own creation of business centres within large branches may have worsened things because all the gloom has been clustered, compounding pessimism.

An admission of trouble or the whiff of it may therefore not be the best news to give a bank manager about a small business client. Professional neutrality, available from an enterprise agency, an accountant or a consultant, is recommended by the professionals: they can take solutions, or prospects of them, to bank managers, not just problems.

That applies in emergencies, of course. But all small businesses taking a longer view of where they are going should consider the Government's enterprise initiative, a series of subsidised consultancy packages promoted by the Department of Trade and Industry.

The consultancies cover areas such as marketing, design, business planning, information technology and financial planning, which is usually concerned with taxation advice.

The DTI has set up a network of regional centres providing information about the enterprise initiative. These can be approached directly, though agencies will refer clients if appropriate.

There are fees to pay for consultancy, which must last between a minimum of five days and a maximum of 15 days, but since the subsidy is approved only if the consultancy is likely to be of value, the expenditure should pay for itself eventually.

Businesses in special development areas with high unemployment pay only one-third of the consultancy fees while those elsewhere pay half. A typical unsubsidised rate is £325 a day, which is at the low end of the range of fees that consultants charge at present.

However, since the enterprise initiative now accounts for about 15 per cent of the consultancy market, this gives the DTI enormous buying power, which it has used informally to keep prices generally down to this sort of level.

Enterprise agencies might also recommend clients to regional economic development agencies and/or venture capital funds such as Lancashire Enterprises, Yorkshire Enterprise, or the Northern Development Company (NDC) if they fitted needs too.

Bodies such as the NDC have formed "federations" for particular industrial sectors to bring small business and big business together and promote more local buying of goods, components and services.

One federation is for computer software and another for the offshore industry. At the same time, the NDC has set up a procurement office to help small businesses bid for government contracts.

Local authorities also remain a source of information and help for small businesses, especially as regards premises and also over special grants and incentives they may offer to people moving into their area and creating jobs. Town hall industrial development offices are always worth trying.

For example, Manchester, Salford and Trafford – parts of which comprise the Greater Manchester inner city – have just launched a soft loans fund, worth up to £25,000 a time, with British Coal Enterprise (BCE) and the Government's local city action team. Proposals are filtered by any of the three local enterprise agencies in the area, so applicants who have not been to them first will be referred back to them.

BCE, which can help anyone wanting to operate in coal closure areas (and not just redundant miners) is itself worth asking for details of what help may be available, as is British Steel (Industry), which does a similar job in steel closure areas. Their respective headquarters are in Nottingham and Sheffield. Chambers of commerce are also worth approaching for help and advice. Some house the local enterprise agency, and all maintain good information about their regions.

In addition, the Government's own Small Firms Service, which is part of the Department of Employment rather than the DTI, is still alive and kicking. There may well be duplication and confusion between its work and that of other agencies, but the service is there to be used and exploited. It too is a participant in the BCE loans scheme in the Manchester conurbation's inner city, for example.

Useful telephone numbers:
Business in the Community: 01-253 3716 for your nearest enterprise agency.
Rural Development Commission: 0722-336255 for advice about operating in the countryside.
Northern Development Company: 091-261 0026.
Operation Livewire: 091-261 5584; helps people under 25 into small business.
Small Firms Service: 0800 222999.

FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak. Inc VAT

AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H

80 Holdenhurst Rd, Bournemouth 0345 717373

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
High Income						
American Income	6	49.38	49.82	53.00	4.17	[illegible]
Gilts & Fixed Int	6	109.4	109.4	111.9	9.83	[illegible]
High Inc Equity	6	135.7	135.7	145.1	4.76	[illegible]
Worldwide Bond	6	186.6	186.6	198.0	6.52	[illegible]
Capital Growth						
American Growth	6	181.6	181.5	195.0	1.19	[illegible]
Asian Pacific	6	145.0	148.2	157.6	0.00	[illegible]
Assets & Earnings	6	259.4	263.2	273.8	2.79	[illegible]
Capital Reserve Acc	6	43.50	43.59	43.78	7.61	[illegible]
Capital Reserve Inc	6	78.66	78.66	78.80	7.61	[illegible]
Commodity & Energy	6	88.98	91.18	96.90	0.00	[illegible]
Dividend & Growth	6	47.83	49.98	52.00	4.35	[illegible]
1992 Enterprise	6	63.36	64.70	68.82	1.95	[illegible]
Euro Capital Acc	6	103.7	105.0	111.7	0.89	[illegible]
Euro Capital Inc	6	99.51	100.9	107.3	0.89	[illegible]
General	6	179.0	182.3	194.1	2.58	[illegible]
International	6	61.23	62.02	65.40	0.76	[illegible]
Japan	6	101.3	101.3	108.9	0.00	[illegible]
Mastertrust	6	89.87	89.87	96.11	1.54	[illegible]
UK Growth Acc	6	177.6	185.4	197.2	2.92	[illegible]
UK Growth Dist	6	116.0	121.1	128.8	2.92	[illegible]
US Emerging Cos	6	57.53	58.81	62.56	0.00	[illegible]
Recovery & Growth	6	305.3	312.2	332.1	3.09	[illegible]
Ethical	6	48.32	49.49	52.04	1.90	[illegible]

Abtrust Management Ltd (1200)H

10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Amer Inc & Growth	5¼	31.05	31.36	33.36	2.38	[illegible]
European	5¼	91.39	91.55	97.73	0.00	[illegible]
European Income	5¼	87.64	87.81	93.74	3.39	[illegible]
Exempt	1	752.1	752.1	778.1	3.22	[illegible]
Exempt Income	3¼	177.0	177.0	187.4	4.61	[illegible]
Exempt American	3¼	376.8	376.8	394.6	1.44	[illegible]
Exempt Pacific	3¼	262.7	262.7	275.1	0.00	[illegible]

Brown Shipley & Co Ltd – Contd.

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Recovery	6	42.51	42.50	45.26	0.68	[illegible]
Smaller Cos Acc	6	240.8	250.9	267.3	[illegible]	[illegible]
Smaller Cos Inc	6	152.4	153.7	163.7	1.04	[illegible]

Brycourt Unit Tst Mgmt Ltd (1400)F

Reliance Hse, Portman Sq, W1H 0JR 071-935 6382

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Income Growth	1	194.4	194.4	201.4	5.56	[illegible]

Buckmaster Mangmt Co Ltd (1200)H

25 St Botolph Street, London EC3A 7LL 071-247 4542

Burrage Unit Tst Mangmt Ltd (0905)F

117 Fenchurch St, London EC3M 5AL 071-480 7216

CCF Foster Braithwaite UT Mngt (1100)F

1 White Hart Yard, London SE1 1NX 071-457 5966

CCL Unit Trusts Ltd (1400)F

74 Shepherds Bush Green, W12 8SD 081-740 7070

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
UK General Inc	5¼	54.52	57.72	61.40	2.86	[illegible]
Global Inc	5¼	40.46	47.02	50.01	5.35	[illegible]
Recovery Inc	5¼	48.76	49.95	53.13	1.92	[illegible]

CIBC Unit Tst Managers plc (1200)H

Cottons Ctr, Cottons Lane, Lon SE1 2QL 071-234 6000

Glenfriars Unit Tst Mngrs Ltd (0905)F

14 Old Park Lane London W1Y 3LH 071-491 1357

Global Asset Management (1200)F

GAM Sterling Management Ltd

Lloyds Bk Unit Tst Mgrs Ltd (1000)F

PO Box 63 Chatham Kent ME4 4YB Dealing 0634 834313

Midland Unit Trusts Ltd – Contd.

Premium Life Unit Tst Mngrs Ltd (1400)F

37 Perrymount Rd Haywards Heath 0444 458721

Principal Unit Trust Mngmt Ltd (1600)F

16 South Park Sevenoaks Kent TN13 1AN 0732 740700

Prolific Unit Tst Mngrs Ltd (1100)F

222 Bishopsgate, London EC2 071-247 7544/7

Scimitar Unit Tst Mngrs Ltd (1200)F

22 Billiter Street EC3A 2BE 071-702 9974/5/6

Midland Unit Trusts Ltd (1200)F

192 Eyre Street, Sheffield, S1 3RD 0742 529888

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
British Tst	6	63.66	64.09	68.55	2.99	46479
(Accum Units)	6	66.20	66.65	71.28	2.99	46480
Capital	6	107.6	107.6	115.1	2.57	40961
(Accum Units)	6	158.4	158.4	169.4	2.57	40962
European Growth	6	160.4	160.4	170.9	0.82	40965
(Accum Units)	6	197.8	197.8	210.7	0.82	40966
Extra High Inc	6	64.23	65.51	70.06	7.25	40967
(Accum Units)	6	93.73	95.56	102.2	7.25	40968
Gilt & Fxd Int	4	47.33	47.33	49.43	9.63	40969
(Accum Units)	4	101.8	101.8	106.3	9.63	40970
High Yield	6	200.0	203.1	217.2	5.62	40971
(Accum Units)	6	405.5	411.7	440.3	5.62	40972
Income	6	247.2	250.1	267.5	4.55	40973
(Accum Units)	6	456.2	460.6	492.6	4.55	40974
Intl High St UT	6	59.77	59.77	63.93	1.49	40975
(Accum Units)	6	62.02	62.02	66.33	1.49	40976
Japan Growth	6	323.8	323.8	346.4	0.00	40977
(Accum Units)	6	340.4	340.4	364.1	0.00	40978

Phillips & Drew Unit Managers Ltd (1400)F

14 Finsbury Square, London EC2A 1PD 071-628 6070

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Charities Fxd Int Jun 28	¼	96.16	96.16	96.53	10.4	46939
Charities Ind Ltd Jun 29	¼	100.2	100.2	100.6	2.6	46941
UK Exempt July 19	¼	105.3	105.3	107.6	5.7	46944
Charities Inst July 20	¼	119.8	119.8	121.9	2.7	46940

Pilgrim Unit Trust Mngmt Ltd (0830)F

39 Pilgrim Street, Newcastle upon Tyne NE1 6RQ

Administration & Dealing:

Unit Trust Accounting & Management Ltd

1 White Hart Yard, London SE1 1NX 071-407 5966

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American	6	46.60	46.73	49.72	0.40	43998
European	6	47.15	47.15	50.04	0.00	44002
Global	6	46.90	46.90	49.87	0.5	44003
Pacific	6	47.07	47.07	50.02	0.00	44006
UK Income & Growth	6	47.17	47.17	50.00	0.4	44011

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♣ - 1401 to 1700 hours; ♠ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers. Other explanatory notes contained in the column of the FT Unit Trust information pages.

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Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Thornhill Unit Trust Managers Ltd (1200)F						
28 St John's Sq, London EC1M 4AE 071-251 6767						
Capital	5	53.35	53.61	57.03	–	43874
Overseas	5	47.59	47.94	50.99	–	43876
Thornton Unit Managers Ltd (1000)F						
33 Cavendish Sq., London W1M 7HF 071-493 7262						
Dealing 071-493 8545						
American Opps	5	56.98	57.57	61.40	0.18	41506
(Accum Units)	5	58.64	59.25	63.18	0.18	41507
European Opps ‡	5	76.41	76.78	81.88	0.00	41508
(Accum Units) ‡	5	76.83	77.20	82.33	0.00	46366
Far Eastern Opps	5	134.62	134.93	143.91	0.00	41509
(Accum Units)	5	135.48	135.79	144.83	0.00	41510
Golden Opps	5	32.61	32.61	34.77	0.00	41511
(Accum Units)	5	33.54	33.54	35.77	0.00	46367
Intl Hi-Yield	5	59.72	59.90	63.88	4.31	41512
(Accum Units)	5	65.10	65.29	69.64	4.31	46368
Sanyo Japan Tst	5	73.18	73.18	78.05	0.00	41513
(Accum Units)	5	73.18	73.18	78.05	0.00	41514
Kangaroo	5	31.45	31.45	33.53	1.25	41515
(Accum Units)	5	31.78	31.78	33.89	1.25	46369
Little Dragons	5	47.03	47.30	50.04	0.00	43157
(Accum Units)	5	47.03	47.30	50.04	0.00	43158
Oriental Income	5	35.41	35.41	37.74	4.63	41516
(Accum Units)	5	40.40	40.40	43.07	4.63	41517
Tiger	5	150.13	150.13	160.13	0.69	41520
(Accum Units)	5	153.00	153.00	163.19	0.69	41521
UK Hi-Yield	5	41.62	41.62	44.39	5.15	41522
(Accum Units)	5	48.65	48.65	51.89	5.15	46302
UK Opps	5	55.56	57.46	61.44	0.69	41523
(Accum Units)	5	60.34	62.61	66.95	0.69	41524
Three Counties Asset Mngmt Ltd (1430)F						
Cuthbert House, Tower Road, Washington NE37 2SH 091 415 3034						
Balanced Portfolio	6	96.15	98.26	104.53	4.00	47962
Cash Deposits		–	–	–	–	44070
Timberlake Trust Mngrs Ltd (0900)F						
1 White Hart Yard, London SE1 1NX 071-407 5966						
Portfolio	2	98.83	98.83	100.40	2.03	42679
Touche Remnant Unit Tst Mngt Ltd (1600)F						
Mermaid Hse, 2 Puddle Dock, EC4V 3AT 071-248 1250						

	Bid Price	Offer Price	Yield Gross	City-line
Phillips & Drew Fund Management Ltd				
Small Co's July 4	756.9	804.9	4.45	[illegible]
Do Accum	830.9	883.5	4.45	[illegible]
Int Exmt July 19	184.2	187.2	2.4	[illegible]
UK Index July 4	1122	1144	4.45	[illegible]
Do Accum	1171	1193	4.3	[illegible]
Convertible July 16	91.36	93.37	8.1	[illegible]
World ex UK Index July 16	814.0	824.7	1.95	[illegible]
Do Accum	814.0	824.7	1.95	[illegible]
Japan Index July 16	672.6	682.5	0.4	[illegible]
Do Accum	674.0	683.8	0.4	[illegible]
USA Index July 16	921.5	926.6	3.1	[illegible]
Do Accum	935.3	940.4	3.1	[illegible]
Europe ex UK Index July 16	995.5	1020	2.3	[illegible]
Do Accum	1012	1036	2.3	[illegible]
Pacific ex Jap Index July 16	936.0	962.2	4.6	[illegible]
Do Accum	955.6	982.2	4.6	[illegible]
Managed Exempt July 19	99.29	100.8	4.75	[illegible]
NM Rothschild Asset Management Ltd				
NC Managed	59.1	62.9	3.74	[illegible]
NC Property	179.5	196.5	–	[illegible]
J. Rothschild Fund Managers Ltd				
Intl Exempt Accum	146.4	148.0	3.24	[illegible]
Stewart Ivory & Co Ltd				
Saints PPP June 20	266.5	280.6	0.00	[illegible]
Closed to new business				
Thornton Unit Managers Ltd				
Managed Exempt July 16	107.33	112.18	3.69	[illegible]
(Accum Units)	109.15	114.09	3.69	[illegible]
Touche Remnant Unit Tst Mngt Ltd				
TR Exempt European	1273	1289	2.07	[illegible]
TR Exempt Nth Amer	938	951	3.41	[illegible]
TR Exempt Pac Basin	956	970	1.31	[illegible]

INSURANCES

OTHER UK UNIT TRUSTS

FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

OFFSHORE INSURANCES

OFFSHORE AND OVERSEAS

CANADA (SIB RECOGNISED)

MANAGEMENT SERVICES

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)

FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT.

	Bid Price	Offer Price	Yield Gross	City-line
Baring Int Fund Managers Guernsey Ltd				
Mngd Portfolio (Dllr)	$11.75	12.47	-	47318
Mngd Portfolio (Stlg)	£4.76	5.05	-	47319
Baring Currency Fund Ltd				
US Dollar	$14.24		-	44754
Sterling	£17.06		-	44755
Deutschemark	DM37.28		-	44756
Japanese Yen	Y3,728		-	44757
Managed	$37.90	39.79	-	44758
Dantrust Management (Guernsey) Ltd				
Dantrust Limited	DKr119.80	120.20	-	44875
Dumenil Asset Management (Guernsey) Ltd				
Dumenil Enterprise Fund Ltd				
PCFC Selective Gwth Fd	£1.2987	1.3301	-	47332
Fipart-Consell Fund Mngrs (Guernsey) Ltd				
Hauteville G & B Fd	SFr8.58	8.65	-	46845
John Govett Mngmnt International Ltd				
Govett Int'l Mngd.	£0.972	1.050	-	45139
Govett High Inc Gilt	£0.3444	0.3667	14.18	45140
Govett Far East Inv.	$1.171	1.252	-	45141
Energy & Resources	$0.773	0.826	-	45142
Hambros Fund Managers (CI) Ltd				
Japanese OTC	$11.3014	12.0251	-	43785
Havelet Throgmorton Mngmnt Ltd				

	Bid Price	Offer Price	Yield Gross	City-line
Sarasin (Isle of Man) Ltd				
Fergus Fd July 13	£13.57xd		-	47346
UK Trend July 18	£10.10xd		-	47347
Target International (Isle of Man) Ltd				
IMC Offshore Fd	£9.68	10.50	-	46450
Fleet Street Inv Fd	£8.84	9.52	-	46578
Offshore Income Fd Ltd.	£9.54	10.08	-	46580
Nelson Hilles W/W $/S	£11.58	12.18	-	46581
Tattersall Intl Assets	£8.78	9.14	-	46805
Tyndall International (Isle of Man) Ltd				
H I. Gilt/Bulldog	96.6	-	-	45884
(Accum Shares)	154.2	162.0	-	45885
Unibank Scandinavian Fund Ltd				
Scandinavia Fd	196.53	209.98xd	1.0	45223

JERSEY (SIB RECOGNISED)

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Barclays International Funds						
PO Box 152, St Helier, Jersey CI						0534 67888
Australian Eq (Inc)	5¼	£0.958	0.958	1.031	2.4	44738
Global Income (Inc)	5¼	£0.456	0.456xd	0.493	4.0	44730
Global Resources R	5¼	£0.457	0.457	0.492	1.3	44742

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

	Bid Price	Offer Price	Yield Gross	City-line
Fountain Fund				
	SFr2.91		-	46572
	SFr2.75		-	46573
	SFr2.50		-	46574
	SFr1.75		-	46575
	SFr3.07		-	46576
	SFr2.33		-	46577
	DM3.68		-	47365
	SFr2.97		-	47936

	Bid Price	Offer Price	Yield Gross	City-line
GT Management Plc – Contd.				
GT Jap OTC Stocks	$14.58		-	47932
GT Jap Sm Cos(z)	$20.80		0.10	49049
GT Korea Fd (z)	$6.58		-	47862
GT Nat Res Gold Cos (z)	$5.67		-	45050
GT Newly Ind Cs Fd (z)	$33.92		1.43	45051
GT Select Bd Fds(Sap)	-		-	43798
GT Technology Fd(z)	$44.18		-	45056
GT UK Small Cos Fd (z)	$8.67		-	45057
GT US Small Cos (z)	$16.74		-	45058
	$-		-	45059

	Bid Price	Offer Price	Yield Gross	City-line
North Star Fund Managers (Cayman) Ltd				
Invest Fund	DKr282.0	283.0	-	[illegible]
Low Risk Fund	DKr224.0	225.0	-	[illegible]
High Perf. Fund	DKr272.0	273.0	-	[illegible]
Bond Fund	DKr163.0	164.0	-	[illegible]
Second Low Risk Fd	DKr182.0	183.0	-	[illegible]
Second High Perform Fd	DKr219.0	220.0	-	[illegible]
Mixed Inst Fd	DKr151.0	152.0	-	[illegible]
Invest Fd (Cayman)	DKr127.0	128.0	-	[illegible]
High Perf Fd (Cayman)	DKr139.0	140.0	-	[illegible]
Bond Fd (Cayman)	DKr123.0	124.0	-	[illegible]

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

A difficult hand

The interest rate picture in Europe is something of a tangled web. France would like to cut rates; the franc is not fundamentally weak, but it is at the bottom of the EMS exchange rate mechanism, and a French cut would be regarded as an unfriendly act by Spain.

The Spanish authorities, meanwhile, are wrestling with a peseta trying to break through the top of the ERM, but Spain is not in a position to reduce rates because of its high inflation and strong economic growth.

UK clearing bank base lending rate 15 per cent from October 5

The Dutch helped last week by pushing market rates higher in Amsterdam, but the strongest cards are held by the Bundesbank, although it is not an easy hand to play. West German money supply growth at the bottom of its target range does not point to higher rates, but other factors may do. Figures on inflation to mid-July are expected at the end of this week, and analysts are looking for a rise from the year-on-year 2.3 per cent at mid-June.

Spain would be pleased to see higher German interest rates, but France would not, while the domestic picture suggests that a rise now might be premature. The implications will not stop at the borders of the EMS. Sterling already has no interest rate advantage over the D-Mark in real terms, and an already depressed dollar could suffer, while the threat of a rise in the Japanese discount rate will increase.

The Bundesbank council meets on Thursday and just might see a Swiss-style floating Lombard rate as a solution. German banks borrow Lombard funds at 8 per cent at present, while the Swiss Lombard rate is an average of the previous two days call money. This would tighten credit conditions when necessary without signalling a full scale rise in rates.

£ IN NEW YORK

July 20	Close	Previous Close
£ Spot	1.8180-1.8190	1.8145-1.8155
1 month	1.04-1.03pm	1.05-1.03pm
3 months	3.02-3.00pm	2.99-2.96pm
12 months	9.95-9.85pm	9.85-9.75pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	July 20	Previous
8.30 am	94.0	94.2
9.00 am	94.1	94.2
10.00 am	94.0	94.0
11.00 am	94.0	94.1
Noon	94.0	93.9
1.00 pm	93.9	93.9
2.00 pm	94.0	93.9
3.00 pm	93.9	93.8
4.00 pm	94.0	94.0

CURRENCY RATES

July 20	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling	-	0.742416	0.695183
U S Dollar	7	1.34511	1.26071
Canadian $	13.32	1.56158	1.45323
Austrian Sch.	6½	15.5602	14.5638
Belgian Franc	10¼	45.6329	42.6594
Danish Krone	10½	8.41837	7.87442
Deutsche Mark	6.00	2.21271	2.06946
Neth. Guilder	7.00	2.49518	2.33119
French Franc	10¼	7.42501	6.94149
Italian Lira	13½	1621.23	1515.63
Japanese Yen	5¼	198.673	187.872
Norway Krone	8	8.48428	7.94376
Spanish Peseta	-	135.533	126.765
Swedish Krona	11	8.00946	7.49576
Swiss Franc	6.00	1.90131	1.77319
Greek Drach.	20½	N/A	202.597
Irish Punt	-	N/A	0.771740

† European Commission Calculations.
* All SDR rates are for July 19

CURRENCY MOVEMENTS

July 20	Bank of England Index	Morgan** Guaranty Changes %
Sterling	94.0	-18.3
U S Dollar	65.6	-13.1
Canadian Dollar	N/A	+1.9
Austrian Schilling	N/A	+11.4
Belgian Franc	N/A	-2.8
Danish Krone	N/A	+4.3
Deutsche Mark	N/A	+23.7
Swiss Franc	N/A	+20.5
Guilder	N/A	+15.5
French Franc	N/A	-12.3
Lira	N/A	-18.3
Yen	N/A	+53.4

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100) **Rates are for July 19

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth	3-mth.	6-mth.	12-mth.
1.8145	1.8041	1.7844	1.7575	1.7154

IMM-STERLING $s per £

	Close	High	Low	Prev
Sep	1.7974	1.7990	1.7936	1.7970
Dec	1.7694	1.7706	1.7650	1.7692
Mar	1.7456	1.7460	1.7420	1.7456

OTHER CURRENCIES

Jul 20	£	$
Argentina	9469.10 - 9510.60	5220.00 - 5240.00
Australia	2.3155 - 2.3175	1.2765 - 1.2775
Brazil	119.725 - 120.860	66.000 - 66.600
Finland	6.9545 - 6.9770	3.8380 - 3.8410
Greece	289.30 - 293.95	159.15 - 161.70
Hong Kong	14.0840 - 14.0975	7.7650 - 7.7670
Iran	124.00*	68.30*
Korea(Sth)	1287.00 - 1307.75	712.80 - 718.40
Kuwait	0.52760 - 0.52900	0.29010 - 0.29070
Luxembourg	61.40 - 61.50	33.80 - 33.90
Malaysia	4.9010 - 4.9135	2.7055 - 2.7075
Mexico	5211.65 - 5216.30	2873.00 - 2874.00
N. Zealand	3.0335 - 3.0580	1.6830 - 1.6855
Saudi Ar.	6.8195 - 6.8250	3.7495 - 3.7505
Singapore	3.2915 - 3.2990	1.8165 - 1.8175
S.Af (Cm)	4.7515 - 4.7630	2.6230 - 2.6245
S.Af (Fn)	7.0865 - 7.2270	3.9065 - 3.9840
Taiwan	49.15 - 49.25	27.10 - 27.15
U.A.E.	6.6775 - 6.6850	3.6715 - 3.6735

* Selling rate

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev.
Sep	93-09	93-12	93-02	93-02
Dec	93-00	93-04	92-26	92-24
Mar	92-24	92-25	92-24	92-16
Jun	92-16	-	-	92-08
Sep	92-09	92-09	92-06	92-00
Dec	92-02	92-02	91-29	91-25
Mar	91-27	-	-	91-18
Jun	91-20	-	-	91-11
Sep	91-13	-	-	91-04
Jun	-	-	-	-

U.S. TREASURY BILLS (IMM) $1m points of 100%

	Close	High	Low	Prev.
Sep	92.63	92.65	92.62	92.61
Dec	92.81	92.84	92.78	92.75
Mar	92.82	92.82	92.78	92.75
Jun	92.64	92.64	92.60	92.56
Sep	92.55	92.55	-	92.51

JAPANESE YEN (IMM) Y12.5m $ per Y100

	Close	High	Low	Prev.
Sep	0.6722	0.6728	0.6708	0.6767
Dec	0.6726	0.6731	0.6714	0.6772
Mar	0.6730	0.6724	0.6721	0.6778

DEUTSCHE MARK (IMM) DM125,000 $ per DM

	Close	High	Low	Prev.
Sep	0.6093	0.6101	0.6083	0.6091
Dec	0.6088	0.6094	0.6082	0.6086
Mar	0.6081	0.6082	0.6077	0.6079

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

	Close	High	Low	Prev.
Sep	91.97	91.98	91.95	91.94
Dec	91.98	92.00	91.96	91.95
Mar	91.97	91.98	91.94	91.93
Jun	91.79	91.80	91.75	91.75
Sep	91.64	91.64	91.59	91.58
Dec	91.45	91.45	91.39	91.38
Mar	91.37	91.37	91.32	91.30
Jun	91.25	91.25	91.20	91.18

SWISS FRANC (IMM) SFr 125,000 $ per SFr

	Close	High	Low	Prev.
Sep	0.7116	0.7122	0.7078	0.7099
Dec	0.7102	0.7107	0.7068	0.7086
Mar	0.7098	0.7100	0.7060	0.7083
Jun	0.7101	-	-	0.7086

STANDARD & POORS 500 INDEX $500 times index

	Close	High	Low	Prev.
Sep	364.80	366.64	368.15	368.45
Dec	369.25	374.25	368.60	372.95
Mar	373.15	378.15	376.50	376.85

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per £1)

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
1.650	16.20	16.20	16.30	16.20	-	0.05	0.17	0.78
1.675	13.70	13.70	13.80	13.70	-	0.10	0.39	1.32
1.700	11.20	11.20	11.30	11.20	0.07	0.29	0.73	1.94
1.725	8.70	8.70	8.80	8.70	0.10	0.64	1.25	2.63
1.750	6.35	6.39	6.50	6.74	0.33	1.19	1.98	3.62
1.775	4.11	4.41	4.63	5.05	0.55	2.01	2.86	4.82
1.800	2.32	2.86	3.18	3.72	1.51	3.05	4.13	6.24

Previous day's open int: Calls 285,921 Puts 289,109 (All currencies)
Previous day's volume: Calls 10,591 Puts 17,719 (All currencies)

POUND SPOT - FORWARD AGAINST THE POUND

Jul 20	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.8110 - 1.8215	1.8140 - 1.8150	1.05-1.03cpm	6.88	3.03-3.00pm	6.65
Canada	2.0880 - 2.0990	2.0940 - 2.0950	0.24-0.17cpm	1.17	0.82-0.69pm	1.44
Netherlands	3.34¼ - 3.36	3.34¼ - 3.35¼	2-1⅞cpm	6.94	5½-5¼pm	6.49
Belgium	61.15 - 61.55	61.40 - 61.50	39-27cpm	6.44	95-76pm	5.57
Denmark	11.30 - 11.35¼	11.30 - 11.31	4½-4¼orepm	4.64	13¼-12½pm	4.56
Ireland	1.1090 - 1.1135	1.1110 - 1.1120	0.50-0.45cpm	5.13	1.35-1.25pm	4.60
W. Germany	2.97½ - 2.98½	2.97½ - 2.98	1½-1⅜pfpm	6.8	3¾-3½pm	4.87
Portugal	260.20 - 262.15	261.15 - 262.15	88-58cpm	3.35	164-89cpm	1.93
Spain	181.95 - 182.85	182.15 - 182.45	3-1cpm	0.13	12-4pm	0.18
Italy	2178¼ - 2184¼	2180 - 2181	7-5lirepm	3.3	20-18pm	3.49
Norway	11.40½ - 11.45¼	11.40¾ - 11.41¾	4-3½orepm	3.99	10⅞-10¼pm	3.7
France	9.97½ - 10.01	9.98½ - 9.99½	4⅛-4¼cpm	5.18	12¾-12pm	4.88
Sweden	10.76½ - 10.81¼	10.76¾ - 10.77¾	2⅝-2¼orepm	2.70	6⅞-6¼pm	2.46
Japan	269¾ - 270¾	269¾ - 270¾	1⅝-1½ypm	7.49	4⅞-4½pm	7.03
Austria	20.90 - 20.98	20.90 - 20.93	11¼-11grpm	6.53	33-31¼pm	6.14
Switzerland	2.54¼ - 2.56	2.54¼ - 2.55¼	1½-1¼cpm	6.17	3¾-3½pm	5.68
ECU	1.4370 - 1.4450	1.4370 - 1.4380	0.61-0.58cpm	4.97	1.67-1.62pm	4.58

Commercial rates taken towards the end of London trading. Six-month forward dollar 5.73-5.68cpm. 12 Month 9.96-9.86cpm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Jul 20	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.8110 - 1.8215	1.8140 - 1.8150	1.05-1.03cpm	6.88	3.03-3.00pm	6.65
Ireland†	1.6310 - 1.6380	1.6315 - 1.6325	0.34-0.29cpm	2.32	0.92-0.82pm	2.13
Canada	1.1510 - 1.1570	1.1560 - 1.1570	0.54-0.56cdis	-5.71	1.50-1.55dis	-5.27
Netherlands	1.8430 - 1.8510	1.8475 - 1.8485	0.01pm-0.02cdis	-0.03	0.03-0.08dis	-0.12
Belgium	33.70 - 33.90	33.80 - 33.90	par-6cdis	-1.06	4-14dis	-1.06
Denmark	6.22½ - 6.25	6.22¾ - 6.23¼	1.10-1.30oredis	-2.31	2.95-3.65dis	-2.12
W. Germany	1.6345 - 1.6435	1.6405 - 1.6415	par-0.02pfdis	0.07	0.04-0.07dis	-0.13
Portugal	143.90 - 144.10	143.90 - 144.00	35-50cdis	-3.54	120-160dis	-3.89
Spain	100.20 - 100.60	100.50 - 100.60	55-57cdis	-6.80	158-170dis	-6.52
Italy	1197½ - 1203¼	1201½ - 1202	3.00-3.50liredis	-3.25	9.00-9.80dis	-3.13
Norway	6.28 - 6.30½	6.28¾ - 6.29¼	1.40-1.65oredis	-2.91	4.40-4.90dis	-2.96
France	5.49 - 5.51½	5.50¼ - 5.50¾	0.72-0.84cdis	-1.70	2.35-2.71dis	-1.84
Sweden	5.93¼ - 5.95¼	5.93½ - 5.94	1.96-2.11oredis	-4.11	6.05-6.50dis	-4.23
Japan	147.95 - 149.20	148.85 - 148.95	0.08-0.06ypm	0.56	0.16-0.13pm	0.39
Austria	11.50½ - 11.55½	11.54 - 11.54½	0.15-0.55grodis	-0.36	1.00-2.10dis	-0.54
Switzerland	1.3995 - 1.4100	1.4060 - 1.4070	0.08-0.11cdis	-0.81	0.27-0.34dis	-0.87
ECU	1.2600 - 1.2660	1.2625 - 1.2635	0.21-0.20cpm	1.95	0.66-0.63pm	2.04

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency

EXCHANGE CROSS RATES

July 20	£	$	DM	Yen	F Fr	S Fr	H Fl	Lira	C $	B Fr
£	1	1.814	2.977	270.2	9.990	2.552	3.352	2180	2.094	61.45
$	0.551	1	1.641	149.0	5.507	1.407	1.848	1202	1.154	33.88
DM	0.336	0.609	1	90.76	3.356	0.857	1.126	732.3	0.703	20.64
YEN	3.701	6.714	11.02	1000	36.97	9.445	12.41	8068	7.750	227.4
F Fr	1.001	1.816	2.980	270.5	10.	2.555	3.355	2182	2.096	61.51
S Fr	0.392	0.711	1.167	105.9	3.915	1	1.313	854.2	0.821	24.08
H Fl	0.298	0.541	0.888	80.61	2.980	0.761	1	650.4	0.625	18.33
Lira	0.459	0.832	1.366	123.9	4.583	1.171	1.538	1000	0.961	28.19
C $	0.478	0.866	1.422	129.0	4.771	1.219	1.601	1041	1	29.35
B Fr	1.627	2.952	4.845	439.7	16.26	4.153	5.455	3548	3.408	100

Yen per 1,000: French Fr per 10: Lira per 1,000: Belgian Fr per 100

EURO-CURRENCY INTEREST RATES

Jul 20	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	15 - 14⅞	15 - 14⅞	15 - 14⅞	15 1/16 - 14 15/16	14 15/16 - 14 13/16	14 11/16 - 14 9/16
US Dollar	8 1/16 - 7 15/16	8 1/16 - 7 15/16	8⅛ - 8	8⅛ - 8	8 3/16 - 8 1/16	8 5/16 - 8 3/16
Can Dollar	13⅝ - 13½	13⅝ - 13½	13⅝ - 13½	13½ - 13⅜	13⅛ - 13	13 1/16 - 12 15/16
D. Guilder	8 - 7⅞	8 - 7⅞	8 1/16 - 7 15/16	8¼ - 8⅛	8½ - 8⅜	8 11/16 - 8 9/16
Sw Franc	9 - 8⅞	9 - 8⅞	9 1/16 - 8 15/16	9 1/16 - 8 15/16	8 15/16 - 8 13/16	8 13/16 - 8 11/16
Deutschmark	8 3/16 - 8 1/16	8 1/16 - 7 15/16	8⅛ - 8	8¼ - 8⅛	8½ - 8⅜	8 11/16 - 8 9/16
Fr. Franc	9⅝ - 9½	9⅝ - 9½	9⅝ - 9½	9 13/16 - 9 11/16	10 - 9⅞	10 3/16 - 10 1/16
Italian Lira	13 - 11	11½ - 10½	11⅛ - 10⅞	11⅛ - 10⅞	11⅛ - 11	11 15/16 - 11 7/16
Belgian Franc	9⅝ - 9½	9¾ - 9⅝	9 11/16 - 9 9/16	9 11/16 - 9 9/16	9¾ - 9⅝	9⅞ - 9¾
Yen	7½ - 7⅜	7⅞ - 7¾	7⅞ - 7¾	7⅞ - 7¾	7 15/16 - 7 13/16	7 15/16 - 7 13/16
D. Krone	10⅝ - 10 7/16	10⅝ - 10½	10⅝ - 10½	10 9/16 - 10 7/16	10⅛ - 10	10⅛ - 10
Asian $Sing	8 1/16 - 7 15/16	8⅛ - 8	8⅛ - 8	8 3/16 - 8 1/16	8 5/16 - 8 3/16	8 7/16 - 8 5/16

Long term Eurodollars: two years 8⅝-8½ per cent; three years 8 13/16-8 11/16 per cent; four years 9-8⅞ per cent; five years 9 1/16-8 15/16 per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

FT LONDON INTERBANK FIXING

(11.00 a.m. July 20) 3 months US dollars		6 months US Dollars	
bid 8	offer 8⅛	bid 8 1/16	offer 8 3/16

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (4pm July 20)

Prime rate	10
Broker loan rate	9¾
Fed. funds	7 15/16
Fed. funds at intervention	7 15/16

Treasury Bills and Bonds

One month	7.19	Three year	8.17
Two month	7.63	Four year	8.24
Three month	7.79	Five year	8.27
Six month	7.84	Seven year	8.44
One year	7.85	10-year	8.48
Two year	8.09	30-year	8.54

July 20	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	7.90-8.00	8.00-8.15	8.05-8.20	8.15-8.30	8.30-8.50	8.00
Paris	9½-9⅝	9 11/16-9 13/16	9¾-9⅞	9⅞-10	9⅞-10	9.50
Zurich	7⅞-8⅛	8¾-9	-	8¾-9	-	-
Amsterdam	8.10-8.20	8.02-8.12	-	8.18-8.28	-	-
Tokyo	7⅜-7½	7 11/16-7 13/16	-	7 11/16-7 13/16	-	-
Milan	11-11½	11¼-11⅝	-	11⅜-11¾	-	-
Brussels	9.05	9⅝-9¾	-	9 11/16-9¾	-	-
Dublin	10⅜-10⅝	10½-10⅝	10 7/16-10 9/16	10⅜-10½	10¼-10⅜	-

LONDON MONEY RATES

Jul 20	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	15¼	15	15	15	15	14⅝
Interbank Bid	14⅞	14⅞	14 13/16	14 13/16	14 11/16	14½
Sterling CDs	-	-	14 13/16	14 13/16	14 11/16	14 7/16
Local Authority Deps.	15	15	14 13/16	14 13/16	14⅝	14⅝
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	15	14⅞	14¾	14½	-	-
Company Deposits	-	-	14 15/16	14⅞	14 13/16	14⅞
Finance House Deposits	-	-	14 15/16	14 13/16	14 11/16	14⅝
Treasury Bills (Buy)	-	-	14⅝	14 11/16	-	-
Bank Bills (Buy)	-	-	14 13/16	14⅝	13 15/16	-
Fine Trade Bills (Buy)	-	-	15⅛	15	14⅞	-
Dollar CDs	-	-	8.05	8.09	8.10	8.25
SDR Linked Dep. Offer	-	-	8⅞	9	9⅛	9⅜
SDR Linked Dep. Bid	-	-	8¾	8⅞	9	9¼
ECU Linked Dep. Offer	-	-	9⅞	10⅛	10 5/16	10 9/16
ECU Linked Dep. Bid	-	-	9¾	10	10 3/16	10 7/16

Treasury Bills (sell): one-month 14 9/16 per cent; three months 14 9/16 per cent; six months 13 15/16 per cent; Bank Bills (sell): one-month 14 13/16 per cent; three months 14 9/16 per cent; Treasury Bills; Average tender rate of discount 14.3188 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day June 29, 1990. Agreed rates for period July 25, 1990 to August 25, 1990, Scheme I: 15.84 p.c., Schemes II & III: 16.25 p.c. Reference rate for period June 1, 1990 to June 29, 1990, Scheme IV&V: 15.025 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 15½ from July 1, 1990; Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 11½ per cent; one-three months 13 per cent; three-six months 13 per cent; six-nine months 13 per cent; nine-twelve months 13 per cent; Under £100,000 11½ per cent from Oct 9, 1989. Deposits withdrawn for cash 5 per cent.

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of lines of stock

FRIDAY JULY 20 1990

Market	US Dollar Index	% chg ($) since 29/12/89	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/89	Gross Div. Yield
Australia (80)	148.91	−1.6	121.67	140.15	127.04	126.47	−0.7	5.51
Austria (19)	278.83	+51.9	226.19	260.56	238.18	235.94	+47.5	1.23
Belgium (61)	154.66	+0.0	126.37	145.55	131.94	129.10	−4.9	4.49
Canada (119)	140.39	−7.7	114.71	132.13	119.76	117.56	−7.9	3.45
Denmark (33)	272.22	+12.4	222.43	256.22	232.25	230.68	+6.4	1.25
Finland (26)	134.45	+0.9	109.86	126.55	114.71	108.34	−4.2	2.53
France (124)	161.86	+3.7	132.25	152.33	138.08	139.77	−1.3	2.93
West Germany (92)	141.51	+14.4	115.62	133.21	120.73	120.73	+11.0	1.87
Hong Kong (48)	146.61	+25.2	119.79	137.99	125.09	146.18	+24.5	4.29
Ireland (17)	190.38	+4.9	155.56	179.19	162.42	164.37	−0.2	2.66
Italy (96)	107.59	+9.3	87.91	101.26	91.79	96.56	+3.6	2.43
Japan (454)	151.21	−23.4	123.55	142.32	129.02	142.32	−20.7	0.59
Malaysia (36)	249.67	+9.0	204.00	234.98	213.00	260.24	+9.3	2.08
Mexico (13)	548.87	+68.6	448.48	516.61	468.27	1724.41	+80.1	0.30
Netherland (43)	147.04	+2.2	120.15	138.40	125.45	124.02	−1.2	4.55
New Zealand (17)	70.17	−2.7	57.33	66.05	59.87	62.75	−2.6	6.99
Norway (23)	251.13	+25.7	205.20	236.38	214.26	214.40	+19.9	1.48
Singapore (25)	206.14	+18.3	168.43	194.03	175.87	172.61	+11.2	2.09
South Africa (60)	179.06	−8.9	146.31	168.53	152.76	154.41	+1.5	3.85
Spain (42)	181.57	+11.3	148.36	170.90	154.91	138.31	+2.3	3.97
Sweden (34)	229.96	+19.7	187.89	216.44	196.19	202.13	+14.8	2.00
Switzerland (68)	106.81	+13.5	87.27	100.54	91.13	93.13	+3.5	2.22
United Kingdom (303)	175.40	+10.5	143.32	165.08	149.63	143.32	−1.8	4.78
USA (539)	146.03	+2.1	119.32	137.46	124.59	146.03	+2.1	3.33
Europe (981)	156.57	+10.0	127.93	147.37	133.58	130.81	+1.9	3.52
Nordic (116)	217.78	+16.2	177.95	204.98	185.80	180.42	+10.8	1.68
Pacific Basin (659)	150.82	−21.7	123.23	141.96	128.68	141.57	−19.1	0.91
Euro−Pacific (1640)	153.56	−11.1	125.47	144.53	131.01	137.87	−11.6	1.99
North America (658)	145.59	+1.5	118.96	137.05	124.23	144.15	+1.5	3.34
Europe Ex. UK (678)	143.74	+9.7	117.45	135.32	122.66	122.90	+4.5	2.70
Pacific Ex. Japan (205)	145.36	+7.7	118.77	136.83	124.02	129.33	+7.9	4.75
World Ex. US (1832)	153.60	−10.8	125.51	144.59	131.06	137.75	−11.4	2.05
World Ex. UK (2068)	147.28	−8.5	120.34	138.64	125.67	140.08	−7.8	2.22
World Ex. So. Af. (2311)	149.60	−6.8	122.23	140.82	127.64	140.25	−7.3	2.47
World Ex. Japan (1917)	150.53	+4.9	123.00	141.70	128.45	139.52	+2.0	3.47
The World Index (2371)	149.78	−6.8	122.38	140.98	127.79	140.35	−7.2	2.48

THURSDAY JULY 19 1990 and DOLLAR INDEX

Market	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1990 High	1990 Low	Year ago (approx)
Australia (80)	149.92	122.43	140.26	128.14	126.94	158.31	125.85	138.02
Austria (19)	274.03	223.78	256.37	234.22	233.76	285.63	193.15	124.17
Belgium (61)	153.33	125.21	143.43	131.05	127.99	160.02	132.11	131.33
Canada (119)	140.49	114.73	131.43	120.07	117.35	153.61	130.37	146.60
Denmark (33)	270.45	220.86	253.02	231.16	229.80	272.22	236.69	211.52
Finland (26)	134.50	109.83	125.83	114.96	108.35	152.29	129.99	141.52
France (124)	161.23	131.66	150.82	137.79	139.48	168.85	141.89	125.77
West Germany (92)	142.05	116.00	132.91	121.41	121.41	142.05	122.05	95.08
Hong Kong (48)	145.91	119.15	136.50	124.71	145.50	146.61	112.24	103.53
Ireland (17)	189.74	154.95	177.51	162.17	163.72	198.57	172.72	148.05
Italy (96)	107.41	87.71	100.48	91.80	96.56	109.26	91.85	90.69
Japan (454)	154.29	126.00	144.34	131.89	144.34	197.26	124.40	180.20
Malaysia (36)	250.89	204.89	234.71	214.44	261.38	250.89	204.15	187.97
Mexico (13)	539.98	440.96	505.17	461.53	1697.35	549.96	324.53	261.22
Netherland (43)	145.71	118.99	136.31	124.54	123.16	147.04	130.43	125.60
New Zealand (17)	70.30	57.41	65.77	60.08	62.99	75.36	59.57	66.54
Norway (23)	248.69	203.09	232.66	212.56	212.66	251.13	202.34	189.73
Singapore (25)	207.14	169.16	193.79	177.04	173.30	209.24	179.70	166.51
South Africa (60)	178.34	145.64	166.84	152.43	154.39	251.39	170.00	145.71
Spain (42)	180.30	147.24	168.68	154.11	137.41	182.25	132.84	151.19
Sweden (34)	229.54	187.44	214.74	196.19	202.18	232.74	173.89	178.32
Switzerland (68)	107.02	87.39	100.12	91.48	93.52	108.77	88.75	85.60
United Kingdom (303)	174.71	142.67	163.43	149.31	142.67	178.18	139.87	153.02
USA (539)	147.47	120.43	137.97	126.05	147.47	148.95	130.61	136.69
Europe (981)	156.14	127.51	146.07	133.46	130.55	156.66	135.57	126.75
Nordic (116)	216.81	177.06	202.84	185.31	180.01	217.78	185.01	171.82
Pacific Basin (659)	153.69	125.51	143.79	131.36	143.45	192.75	124.63	175.71
Euro−Pacific (1640)	155.10	126.66	145.09	132.56	138.83	174.18	130.95	156.24
North America (658)	146.95	120.00	137.49	125.62	145.47	148.43	131.02	137.18
Europe Ex. UK (678)	143.46	117.15	134.24	122.65	122.88	143.74	124.61	110.23
Pacific Ex. Japan (205)	145.72	119.00	136.35	124.56	129.46	146.72	122.53	121.81
World Ex. US (1832)	155.06	126.63	145.07	132.54	138.65	173.77	131.30	155.87
World Ex. UK (2068)	148.93	121.62	139.34	127.31	141.35	162.00	130.80	147.50
World Ex. So. Af. (2311)	151.05	123.35	141.33	129.12	141.33	161.84	131.95	148.00
World Ex. Japan (1917)	151.13	123.42	141.40	129.19	140.10	151.59	134.62	132.85
The World Index (2371)	151.22	123.49	141.47	129.28	141.43	162.05	132.25	147.98

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

Constituent changes: Addition: Surveillance (Soc.Gen.)(Reg.)(Switzerland).

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

[illegible]

BRITISH FUNDS—Contd

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

AMERICANS

[illegible]

AMERICANS—Contd

CANADIANS

[illegible]

Continued on next page

LONDON SHARE SERVICE

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BANKS, HP & LEASING

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
2,361.5	ANZ SA1	230	1.8	8.6	12.6	Feb July	1698
2,973.7	Abbey National 10p.	227	5.1	3.3	12.3	Apr Oct	5411
1,238.1	Allied Irish Ord	229	1.8	4.2	29.5	Dec July	1354
1,149.1	Algemene Fl.10	£11½	2.3	7.5	3.5	Aug	6
27.1	Anglo Irish	68	7.9	6.5	30.4	Jan Jul	1355
173.6	Ansbacher (H.) 1p	99	9	3.6	2.3		62
999.4	Bancaire Cie Fr100	£58¼	....	2.2	9.5	May Mar	2202
4,730.7	Banco Bilbao Viz	£19½	....	4.3	9.2		
3,292.1	Banco de Santander	£29	....	3.8	31.10	Apr Oct	–
758.0	Bank Ireland Ir£1	227	3.2	6.1	29.5	July Dec	1360
134.4	Bank Leumi	£29½	....	–	–	–	1740
24.7	Bank Leumi (U.K.)	350	1.4	4.8	26.2	Mar Sep	1740
890.6	Bank Scotland	117½	–0.4	5.2	30.4	Nov Jul	1742
96.5	Do. 9¼pc Irrd Pf.	96½	0.5	12.8	30.4	May Nov	1462
16.6	Bank of Wales	52	....	7.2	30.4	Nov Jun	1743
6,454.6	Barclays £1	408xd	1.5	6.4	12.3	Oct May	1754
7.51	Benchmark 20p	14	....	15.5	9.4	May Oct	1802
49.4	Brown Shipley £1	310	–1.9	5.2	11.6	Jan Aug	1983
87.0	Cater Allen £1	367	....	8.9	25.6	Jan. Aug	2081
23.8	Chancery	117	2.6	10.3	25.6	Jan July	2102
462.8	Commerzbk DM10	£20½	2.8	3.0	27.5	May	1046
24,915.2	Dai Ichi KBk Y50	889	–0.7	0.4	4.7	June	5221
9,032.7	Deutsche Bk DM50	£282¼	1.4	1.7	17.5	May	2345
195.2	Espirito Santo	£18¼	–1.4	2.4	–	June	5187
325.7	First Nat. Fin. 10p	202xd	2.0	8.6	9.7	Mar Aug	2571
48.9	FNFC 6.3pc Cv. Pf.	101	5.2	8.3	25.6	July	2570
10,188.8	Fuji Bank Y50	945	–3.7	0.3	4.7	Dec June	1084
112.4	Gerrard & National	295	1.4	8.6	29.5	June Dec.	2686
79.7	Guinness Mahon 10p	123	0.8	2.3	14.5	Jul Feb	5074
431.3	Hambros 20p	266	....	5.8	25.6	Jan Sep	2812
168.0	Do. 7.5pc Cv Pf.	112	....	8.9	12.3	Apr Oct	4386
2,879.0	HK & Shang. HK$2.50	45	....	6.0	14.9	May Sep	–
24.3	Joseph (Leo) £1	463	....	4.7	11.12	Jan Sept	3060
22.1	King & Shaxson 20p.	140	....	9.8	14.5	Dec June	3088
478.1	Kleinwort Benson Grp.	375	0.8	5.7	26.3	May Nov	3102
5,581.1	Kyowa Bank Y50	429	–3.2	0.6	29.6	Mar Jun Sept	3049
3,738.8	Lloyds £1	302	1.0	5.9	26.2	Oct May	3171
30.4	Lon. Scot. Bank 10p.	51	....	6.3	25.6	Mar Aug	4651
2,355.6	Midland £1	382	–0.7	7.9	26.2	May Oct	3380
29,176.6	Mitsubishi Bank Y50	£19⅛	....	0.3	4.7	June Dec.	5290
9,841.3	Mitsubishi Tst & Bk Y50	£7¼	–0.4	0.4	–	–	4775
27,212.8	Mitsui Taiyo Kobe Y50	£8¼	–0.8	0.4	–	Sept. Mar	–
6,970.3	Mitsui Tst & Bk Y50	582	–1.5	0.5	29.6	Sept Mar June	5388
3,363.4	Nat Aust. Bk. A$1	297	0.7	7.6	21.12	July Jan	3456
5,370.0	NatWest £1	335	1.5	6.6	26.2	Oct May	3463
92.5	Ottoman Bank	£185	....	5.9	16.5	May	–
17.6	Rea Bros. Group	45	....	1.5	30.4	May Oct	3785
429.0	Rothschild (J) Hldgs.	152	5.6	8.8	25.6	Jul Dec	3864
1,291.1	Royal Bk. Scotland	171	0.9	5.6	14.5	Mar Jul	3874
4,958.1	Saitama Bank Y50	487	–1.4	0.5	29.6	Sept Mar Jun	5286
31,631.5	Sanwa Bank Y50	790	–1.1	0.4	11.12	June Dec.	5108
398.3	Schroders £1	793	....	2.1	26.3	Oct May	3939
76.0	Do. £1 N/V	588	....	2.8	26.3	May Oct	3941
1,989.7	Sec. Pacific $10	£19¼	....	5.6	26.4	Fb My Ag Nv	3985
1,025.1	Standard Chartd. £1	499	–0.9	10.6	26.3	May Oct	4094
23,591.3	Sumitomo Bank Y50	£9¼	0.7	0.3	29.6	June	3079
8,135.7	Sumitomo Tst & Bk Y50	£6⅝	–2.8	0.5	29.6	June Dec	4918
2,162.9	TSB	144	2.1	5.5	12.2	Oct Mar	4320
23.1	TSB Bank Ch'nel Is'l	157	....	4.3	11.6	Feb Aug	4319
12,798.7	Tokai Bank Y50	£6⅝	....	0.4	29.6	June	5359
5,442.3	Toyo Tst & Bk Y50	669	–3.0	0.4	29.6	Sept Mar Jun	1393
109.5	Union Discount £1	584	–0.7	7.7	12.2	Mar Sept	4353
813.2	Warburg (S.G.)	422	2.2	4.7	11.6	July Dec	4425
61.3	Do 6pc Cnv Prf	144	....	5.6	26.2	Mar Sept	4426
2,680.6	Westpac SA1	229	....	10.8	28.12	Jan July	4473
32.1	Wintrust 20p	388	–0.8	2.7	12.2	Sep Mar	4524
7,219.0	Yasuda Tst & Bk. Y50	692	–1.1	0.5	29.6	Sept Mar Jun	5347

Hire Purchase, Leasing, etc.

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
57.6	Anglo Grp. 10p	173#	....	4.3	13.11	Dec Aug	1613
37.3	Do. 9½pc 1999	£74½#	....	12.8	–	September	–
32.0	CLF Yeoman 50p	80	–5.9	11.5	29.1	–	1162
39.7	Cambridge Grp Ir5p	68	–2.9	0.5	14.5	Nov June	5358
8.22	Capital Leasing Ir.10p	29	16.0	3.8	27.12	Jul Jan	1641
40.4	Cattle's (Hdgs) 10p	61	....	7.8	9.4	May Oct	2082
209.7	Prov. Financial	415	0.2	6.6	26.2	Nov Apr	3731
22.1	Reflex Invs. Ir5p	190	....	1.3	25.6	July Dec	4940
30.1	Secure Trust Grp. 1p	212	–1.4	5.3	30.4	Jun Nov	1472
267.3	Woodchester IR20p	194	....	1.6	26.3	–	1487

BEERS, WINES & SPIRITS

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
3,820.3	Allied-Lyons	502	1.2	4.5	29.5	Jul Feb	1580
7,328.9	Anheuser-Busch $1	£24⅞	–1.8	1.5	4.5	Mr Jn Se De	1620
3,950.6	Bass	1116	1.2	3.4	29.5	Feb July	1772
147.9	Boddington	152	2.7	4.5	9.4	May Nov	1862
90.2	Bulmer (H.P.) 5p	174	1.2	6.0	27.12	Sept Feb	2005
37.5	Burtonwood Brewery	180xd	....	2.9	9.7	Feb Aug	2022
31.6	Clark (Matthew)	355	8.2	5.2	26.2	Apr. Oct.	2153
92.7	Devenish (J.A.) 5p	184	2.8	3.4	25.6	Feb July	2346
9.80	Do 4.5pc Cv 2ndPf	130	....	4.6	26.2	Mar Sept	2347
25.1	Eldridge Pope "A" 50p	129	–3.7	4.2	25.6	Feb. Jly.	2435
82.0	Feller, S.T.A. $1	419	....	1.8	27.12	Aug Jan	2643
6,636.2	Grand Metrop. 50p	671	4.2	3.6	29.1	Oct April	2759
446.6	Greenall Whitley	365	2.0	3.2	29.5	July Feb	2766
58.1	Do 5.95pcCvPf£1	173	2.4	4.6	29.6	June Dec	2765
158.2	Greene King	377xd	3.9	3.5	9.7	Aug. Feb.	2769
7,299.9	Guinness	812	1.1	2.5	9.4	Nov May	2791
663.0	Do. 5¾pc Cnv Prf	221	1.4	3.5	11.6	Jan July	2788
199.4	Do 8¾ pcCvLn	£269½	1.5	3.1	11.6	Jan July	2789
273.9	Highland Dists. 20p.	221	1.8	2.3	30.4	Jan June	2890
184.2	Invergordon Distillers 10p	145	0.7	4.6		Oct May	2997
6,936.0	Kirin Brewery Y50	692	–2.3	0.4	–	June Dec	1119
283.9	Macallan-Glenlivet	586	–0.3	0.2	9.4	Nov Apr	3254
61.4	Macdonald Martin 'A' 10p	465	1.1	1.9	11.6	Jan Jly	3257
70.0	Mansfield Brewery	445	1.1	3.4	11.12	Jan Sep	3282
171.2	Marston Thompson	196xd	....	2.7	9.7	Jan Aug	3301
26.4	Merrydown Wine	458	5.8	1.7	11.12	Jan Oct	3352
58.7	Morland	348	2.7	2.0	11.6	July Jan	3419
1,391.2	Scott & New 20p	354	1.4	5.0	27.12	Feb Sept	3944
4,685.6	Seagram $	£46⅝	0.4	1.8	28.11	Se De Mr Ju	–
319.7	Vaux Group 10p	237	0.4	4.4	29.5	Feb July	4392
2,002.1	Whitbread 'A'	454	0.8	4.3	11.6	Jan July	4488
4.16	Wiltshire Brewery 5p.	70	1.4	2.9	–	July Jan	3677
270.1	Wolv. & Dudley	416	–0.2	2.9	29.5	Jan July	4530
13.5	Young Brew 'A' 50p.	465	–1.1	3.3	29.5	Dec July	4563
19.2	Do. Non. V. 50p.	370	–1.3	4.1	29.5	Dec July	4564

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS – Contd

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

LONDON SHARE SERVICE

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MOTORS, AIRCRAFT TRADES – Contd

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY – Contd

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

INVESTMENT TRUST

[illegible]

INVESTMENT TRUST – Contd

[illegible]

INVESTMENT TRUST – Contd

[illegible]

FINANCE, LAND, ETC

[illegible]

WATER

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS – Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

MINES – Contd

[illegible]

THIRD MARKET

[illegible]

6 50	Tomorrows Leisure 20p ψ	58	....	–	–	–	4248
1.09	UPL Group 10p... ψ	27	–20.6		‡22.5	Dec. July	4362
9 63	Unit Group........ ψ	180xd	....	3.7	9.7	Jan Aug Oct	4357
9 09	Video Magic Leis. 1p ψ	55	–1.8	4.8	26.1	Jan July	5071
3 84	Vista Ents 5p....... ψ	4	....	–	–	–	3994
6.95	Vizcaya Hldgs 5p.. ψ	15	....	–	–	–	4193
16 8	Wilton Group 1p... ψ	3¼	....	–	–	–	3628

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ψ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- # Price at time of suspension
- ♣ Not comparable
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ‡ Cover does not allow for shares which may also rank for dividend at a future date.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. c Cents. e Redemption yield. f Flat yield. k Kenya. C Canadian. E Minimum tender price.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xR ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1.. ψ	830	......
Finlay Pkg. 5p.... ψ	51	–3.8
Holt (Jos) 25p..... ψ	1310	......

IRISH

Cap. 8½% Ln. 1991	£98¼	......
9pc Cap Ln. 1996..	£96½	0.3
Fin. 13% 97/02..	£112¼	–1.4
Arnotts.....	285	......
Carrol (P.J.)....... ψ	124	–1.6
Hall (R. & H.).......	165	......
Helton Hldgs....... ψ	72	......
IRG..................	285	5.1
United Drug.........	155	–3.1

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons..............	40
Amstrad..	7
Astec (BSR)...............	6
BAT..........	62
BOC Grp..............	48
BTR..........................	37
Barclays.	34
Blue Circle	21
Boots........................	24
Bowaters...	40
Brit Aerospace...	47
British Steel.	13
Brit. Telecom	25
Cadburys.......	30
Charter Cons..............	42
Comm Union..	41
Courtaulds............. ..	29
Eurotunnel...	55
FKI	7
FNFC	20
Gen Accident...	46½
GEC.......	18
Glaxo...........	68
Grand Met....	53
Guardian	20
GKN.	33
Hanson.	20
Hawker Sidd..	53
ICI.......................... .	99
Ladbroke	27
Legal & Gen	34
Lex Service.....	28
Lloyds Bank.	25
Lucas Inds................	13
Marks & Spencer...... ..	19
Midland Bk....	24
Nat West Bk..	30
P & O Dfd........	52
Polly Peck..........	39
Racal Elect................	19
RHM.........................	30
Rank Org Ord..............	70
Reed Intnl.................	38
STC.........................	21
Sears........................	9
SmKl. Beecham A.......	48
TI............................	39
TSB..	11
Tesco.......................	19
Thorn EMI.................	62
Trust Houses..............	24
T&N.........	18
Unilever....................	58
Vickers.....................	19
Wellcome..................	57

Property

Brit Land.....	32
Control Secs...............	4
Land Securities...........	45
MEPC.......................	45
Mountleigh..........	13

Oils

Aviva Petlm................	5
Brit Petroleum............	28
Burmah Oil................	55
Conroy Petlm.............	10
Gaelic Res.................	3½
Premier.....................	9
Shell........................	40
Tuskar Res.................	5½
Ultramar...	31

Mines

Lonrho......................	21
RTZ........	50

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £1050 per annum for each security.

4pm prices July 20

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
37½	19	AAR	.48	2.1	14	865	23½	22½	23	+ ½
9¼	8	ACM n	1.01	12.		194	8⅝	8½	8⅝	– ⅛
11⅜	9⅞	ACMIn	1.26	12.		376	10¼	10⅛	10¼	
9¼	7¼	ACM M	n1.01	12.		436	8¼	8⅛	8⅛	
12⅛	10	ACMMM				197	11½	11¼	11½	– ⅛
11½	9⅛	ACM Sc	1.26	12.		946	10⅛	10	10⅛	+ ⅛
9⅞	8⅛	ACMSp	1.01	12.		358	8⅞	8⅛	8⅛	– ⅛
24⅝	14⅛	AL Lab	.16	.7	20	123	23	22½	22⅞	– ½
5¼	2⅛	AM Inc				1382	2⅝	2⅜	2½	
23⅛	10⅛	AM In pf	2	16.		21	12⅞	12½	12⅝	+ ⅛
107¼	52½	AMR			13	6208	61	59¼	59⅞	– ⅞
24¾	22¼	ANR pf	2.12	8.7		9	24½	24⅜	24½	+ ⅛
4⅝	3	ARX				6	3⅝	3¼	3⅜	
72¼	41⅛	ASA	3a	6.6		459	46⅞	45¼	45¾	– 1⅛
45⅝	30⅝	AbtLab	s.84	1.9	21	4891	45	44⅛	44½	+ ⅛
16½	11¼	AbitiPri	g .60			25	13⅞	13¾	13¾	– ¼
12⅛	7½	AcmeC	.40	5.2	9	172	8⅛	7⅝	7⅝	– ⅜
9⅛	7⅞	AcmeE	.32	3.8	10	35	8⅝	8½	8½	
43⅛	28¾	Acuan			29	381	49	48⅞	48⅞	+ ⅛
16⅞	14⅛	AdaEx	2.08e	13.		151	16½	16¼	16¼	– ¼
15⅞	10	Adobe				117	11⅞	11½	11½	– ⅛
20¼	18	Adob pf	1.84	9.7		15	19¼	19	19	
21⅝	20⅛	Adob pf	2.40	12.		6	20½	20⅛	20½	+ ⅛
11⅞	6⅞	AMD			15	14254	9	7⅛	7⅛	– 1⅛
32⅞	28¼	AMD pf	3	11.		88	31	28¼	28⅜	– 2⅝
10⅛	3⅛	Advest	.16	4.0	50	59	4⅛	3⅞	4	
62½	45¼	AetnLf	2.76	5.3	9	4134	52⅞	52	52⅛	– ⅛
13⅛	9¼	AflPb	.24	2.3		487	10⅜	10⅛	10¼	– ⅛
25	16⅛	Ahmans	.88	4.3	9	2741	21	20⅛	20⅜	– ½
3⅝	1⅞	Aileen				67	2⅛	2⅝	2⅝	– ⅛
61	42	AirPrd	1.44	2.5	15	649	58⅜	57½	57⅝	
26⅞	14⅛	AirFrt	s		17	376	26	25⅞	25⅞	

Continued on Page 35

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
65	50	Raythn	2.40	3.8	8	1735	64½	63½	63½	-⅛
27½	21	RdrDg n	.48	1.8		760	u27⅝	27½	27⅝	+⅛
5	15-16	RdgB n				348	1⅝	1⅛	1⅝	+⅛
16⅞	14	REIT	1.42	9.5	12	19	15⅛	15	15	-⅛
16⅛	13½	RItRef	1.72	12.	8	6	14	13⅞	14	+⅛
10½	4⅞	RecnEq				23	5⅛	5⅛	5⅛	
20	12⅝	Reebok	.30	1.9	10	6283	16⅛	15⅝	16	
½	5-32	Regal				62	⅛	5-16	⅛	+1-32
15⅞	10	ReichTg	1.62	15.	8	6	10⅛	10⅛	10⅛	+⅛
8⅞	4⅛	RelGrp	.32	4.8	183	115	6⅞	6⅞	6⅞	
28⅞	18⅛	Repsol	n.86e	3.1		3030	28⅛	27⅞	27⅞	-⅛
5⅛	3⅞	RepGyp	.10r	3.2	36	6	3⅛	3⅛	3⅛	-⅛
52⅞	42½	RepNY	1.32	2.6	757	34	50⅞	50⅛	50⅛	+⅛
10½	1⅛	Rtbise				232	2½	2⅛	2⅛	-⅛
27⅛	18⅛	RayRay	.80	3.8	9	147	21	20⅝	21	+⅛
64½	48½	RayMt	1.60	2.6	9	1820	64½	63⅞	63⅞	-⅛
19	14⅛	RhP pfA				4	17⅞	17⅞	17⅞	
3½	1⅞	RhP wt				107	2⅞	2⅞	2⅞	+⅛
22	16½	RhnPl n				138	20⅛	20⅛	20⅛	
41⅛	29½	RiteAid	.90	2.4	15	342	37½	36⅞	36⅞	-⅛
11-32	3-64	RvrOak				83	5-64	1-16	1-16	
16⅞	14⅝	RbtHIf			13	116	15⅛	15⅛	15⅛	+⅛
14⅛	9⅛	Robsn			29	654	12⅛	10⅞	11⅞	+1
27⅛	17½	RochG	1.56	8.4	10	149	18⅛	18⅛	18⅝	-⅛
45⅞	29⅞	RochTl	s1.48	4.4	17	271	33⅛	32⅞	33	-⅛
22⅛	17⅛	RckCtr	1.80	10	18	390	18⅛	17⅛	18⅛	+½
30⅛	19⅞	Rockwl	.88	3.1	11	3487	28⅞	28	28	-⅛
7⅞	6⅛	RodRen				12	6⅞	6⅛	6⅛	-⅛
37½	28⅛	RohmH	1.20	3.5	13	514	35⅛	34	34	-1⅛
33⅞	18½	Rohr			200	625	23⅞	23	23	-⅛
15⅞	8⅞	RolinE	.08	.6	31	2182	14⅛	13½	13½	-⅛
20⅞	15⅞	Rollins	.56	3.2	17	684	17⅞	17⅞	17⅞	+⅛
9⅛	7⅛	RolLeas	.20	2.3	9	378	9	8⅞	8⅞	
78⅛	57	Rorer	.84b	1.1	36	637	76⅞	75⅞	76⅞	+⅛
67⅞	61	Rorer wd				458	66	66⅛	66⅛	+⅛
14⅛	7½	Rowan				3074	13⅞	12⅞	13⅞	+⅛
23⅛	21⅛	RBScot pr2.24e		9.4		116	24	23⅞	23⅞	-⅛
80⅛	63⅞	RoylD	3.45e	4.8	12	7561	u81⅛	80½	80⅛	
10	8½	Royce	.52e	5.4		220	9⅞	9⅞	9⅞	-⅛

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
35⅛	19⅛	Stratus			19	1770	25	23⅞	24⅞	
30⅛	19⅛	StrdRt	.40	1.5	15	605	28⅛	27⅛	27⅞	-⅛
35	23	StrmR	1	3.7	10	246	28⅞	26⅞	28⅞	
19⅞	5	SunSh			44	186	10⅞	9	10⅞	+1⅛
10⅛	7⅞	SunDis n	.10	12		343	9⅛	9⅛	9⅛	
4½	2⅛	SunDisB				183	3	2⅞	3	+⅛
22⅛	13⅛	SunEl				418	21⅞	21½	21⅞	-⅛
13⅞	10⅛	SunEng	1.36e	12.	37	18	11	10⅞	11	
43⅛	35⅛	SunCo	1.80	4.7	70	1344	38⅛	37½	38	+⅛
41⅛	28	Sundst s	1.10	3.1	12	523	35⅛	34⅞	35	+⅛
4⅛	2⅞	SunMn				869	3	2⅞	2⅞	
2⅞	8⅞	SunM pf1.19		14		10	8⅛	8½	8½	
38⅞	18⅞	SunTrst	.84	4.1	8	2532	21⅛	20½	20⅞	-⅛
21⅛	15⅛	SupFd	s.32	1.8	16	264	20	19⅞	20	+⅛
30⅞	23⅞	SupValu	.88	3.4	14	1600	27⅞	27⅞	27⅞	-⅛
25⅛	14⅛	Supind	s.28b	1.1	13	157	24⅞	24⅛	24⅞	+⅛
17⅞	15⅛	SwHetr				322	15	14⅞	14⅞	-⅛
24⅛	6⅞	SybStc			17	800	10⅞	10⅞	10⅞	-⅛
14	9⅛	SymsCp			9	7	9⅛	d 9⅛	9⅛	-⅛
19⅛	14	Synovs	.38	2.2	16	35	17⅛	16⅞	17	-⅛
63⅞	40	Syntex	1.60	2.6	22	6045	63⅛	61⅞	61⅞	-1⅛
38⅛	24⅛	Sysco s	.20	.6	28	1236	37⅛	35⅞	35⅞	-1⅛
23⅞	16½	SysCl			15	1189	18	17⅛	18	+⅛

– T – T – T –

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
28	14⅞	TCBY	.12	.8	13	297	15⅛	15⅞	15⅛	-⅛
17⅞	8⅛	TCF Fn	.40	4.4	7	246	9⅛	9	9	-⅛
8⅞	7⅞	TCW	.84	9.8		218	8⅞	8½	8½	
51⅛	29⅞	TDK s	.26e	.5		1	49⅛	49⅛	49⅛	-⅛
29⅛	25½	TECO	1.62	5.6	12	443	29	28⅞	28⅞	-⅛
8⅞	6⅛	TIS	1.26e	17	6	113	7½	7⅛	7½	+⅛
20½	11⅞	TJX	.48	3.3	15	2560	14½	14⅛	14⅛	-⅛
22½	14½	TNP	1.53	8.5	10	38	18⅛	18⅛	18⅛	
51⅛	44⅛	TRW	1.72	3.8	11	551	46⅛	45⅛	45⅛	-⅛
4½	2⅛	TacBt n				45	2⅞	2⅞	2⅞	-⅛
40⅞	18	Taiwan	16.44e	60		232	27½	27	27⅛	
14	6½	Talley	.50	7.1	3	62	7	6⅞	7	+⅛
19⅛	13⅞	Talley pf	1	9.1		19	11	10⅞	11	+⅛

– X – Y – Z –

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
88½	43⅞	Xerox	3	6.4	8	4345	48⅛	47	47	-⅞
49	45⅛	Xerox pf4.13		8.8		1	48½	46½	48½	-½
34	21	XTRA	.48a	2.3		139	21	d20⅛	20⅞	-⅛
27⅞	18⅛	XTRA pf1.94		10.		173	19⅛	19	19	-⅛
4⅛	1½	Zapata				690	1⅞	1⅛	1⅞	
12	5	Zemex				38	5⅛	5⅛	5⅛	
19	7⅞	ZenithE				1980	7½	d 7⅛	7⅛	-⅛
21½	13½	ZenNtl	.88	5.9	9	51	14⅞	14⅞	14⅞	-⅛
9⅞	5⅞	Zenix	.90	14.		135	6⅛	6	6⅛	+⅛
16½	12⅞	Zero s	.40	2.7	15	78	14⅞	14⅝	14⅞	+⅛
51⅛	34⅝	Zurnln	.76	1.5	22	673	49⅝	49	49⅛	+⅛
12⅝	10⅞	Zweig	1.21e	11.		184	11½	11⅛	11½	
10	9	ZweigTl	.96	10.		1053	9⅞	9⅛	9⅞	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

NASDAQ NATIONAL MARKET

4pm prices July 20

AMEX COMPOSITE PRICES

4pm prices July 20

The Business Column

Why banks' roots may no longer be branches

IN THE race to prepare for Europe's single market in commercial banking, one truth above all others has been held self-evident: that to become anything more than a niche player outside one's home market will require local branches with direct access to retail and corporate clients.

Good branch networks do not grow on trees. Creating one from scratch is slow and prohibitively expensive. Opportunities to acquire existing networks are scarce, and hardly any cheaper. Earlier this year, National Australia Bank paid almost £1bn, three times book value, for Yorkshire Bank, a medium-size UK regional bank.

However, the fashionable wisdom is sharply contested in an article in the latest McKinsey Quarterly. It argues that retail networks, far from being the most powerful competitive weapon in banking after 1992, could turn out to be a source of dangerous vulnerability.

The authors point out that European banks have built up "enormous, largely fixed-cost infrastructures and networks." These are sustainable only in a highly-regulated, non-competitive environment, where banks have not needed to price different services in line with cost and still depend massively on internal cross-subsidies.

Retail deposits

The biggest source of subsidy is retail deposits, which in many European countries pay interest at well below market rates. McKinsey estimates that margins on current accounts, which contribute nearly $26bn – 54 per cent – of European banks' annual gross margins, are regularly used to cover $23bn net losses on payment transfers.

In the UK, domestic deregulation has caused banks to start ironing out such discrepancies, though the travails of the Midland Bank demonstrate how hard adjustment can be. But distortions remain acute elsewhere. In West Germany, often regarded as home to the EC's strongest banking system, cheap retail deposits benefit the industry by an estimated DM25bn a year. That helps to offset the DM9bn cost of financial products, DM17bn losses on payments transfers and corporate lending and the whopping DM40bn fixed cost of branch networks.

However, the article notes that mutual funds, on average, offer a return 2.4 percentage points higher than European bank savings accounts. If money market funds achieved the same penetration in West Germany as in France, German banks' annual profits could fall to $1.8bn from $3bn. And if margins on savings deposits equalled those on mutual funds, as in the US, European banks' would have made a $8bn loss instead of $12bn net profits in 1986.

Small wonder that banks in Germany and some other countries where money market funds are prohibited are resisting their introduction. But they cannot be held at bay indefinitely in an integrated European market.

Product innovations

Hence banks' top priority should be to safeguard their domestic earnings bases by focussing on product innovations tailored to specific customer requirements. Traditional bank networks, which rely on passive selling of undifferentiated products, are poorly suited to that task.

The article warns that "blindly trying to occupy a position, any position, in Europe will achieve little. Particularly so if exaggerated premiums have to be paid to get there. Indeed, the result may well be a sustained competitive disadvantage."

If McKinsey is right, 1992 will change radically banks' marketing methods and the structure of their liabilities. The consequences could be far-reaching, particularly in countries such as West Germany where cheap retail deposits subsidise unprofitable corporate lending.

There has been much evidence recently that in banking, as in many other industries, size and international exposure do not necessarily confer strength. Analysts who have grown used to looking to banks' assets as a primary measure of their financial health might do well in future to pay more attention to the other side of the balance sheet.

Guy de Jonquières

MONDAY INTERVIEW

Morale booster at the Met

Sir John Dellow, Deputy Commissioner of the Metropolitan Police, speaks to **Alan Pike**


Tony Andrews

'Police officers are human and they make mistakes'

Senior police officers like Sir John Dellow are living through a year in which they cannot discuss their work without expecting to be questioned about the integrity of the police service itself.

Britain's system of policing is built around the principle that it functions with the consent and confidence of the public. That confidence has been called into question in recent months by a series of alarming episodes, including the release from prison of the Guildford Four after re-examination of police evidence, and the disbandment of the West Midlands Serious Crimes Squad amid allegations of officers attempting to obtain convictions improperly.

Sir John, Deputy Commissioner of the Metropolitan Police, is, as president of the Association of Chief Police Officers, the leading representative of Britain's chief constables in the highly-charged debate about policing.

His career began nearly 40 years ago as a constable in the City of London force, and took him to Kent and then the Metropolitan Police where he is remembered as the officer in charge of the Iranian Embassy siege in 1980. This year he was knighted. A knighthood goes with the job of Metropolitan Police Commissioner but not automatically to his deputy. Sir John's knighthood acknowledges his personal standing among senior police officers where he has contributed extensively to discussions about the shape of policing.

He acknowledges the current public concern about the police and the justification for some of it. "Police officers are human and they make mistakes. They do unlawful things and they do improper things." But he questions the objectivity of some of the criticism.

When evidence of police malpractice comes to light, says Sir John, it sends public opinion of the police on a downward spiral. When there is a disaster or act of heroism by police officers, the spiral travels up. Both, he suggests, are equally invalid ways of assessing the state of public opinion about a service with which relatively few people have frequent direct experience.

In an attempt to gain firmer evidence, the Metropolitan Police commissions independent surveys of people visiting London police stations. These show satisfaction levels of about 80 per cent and opinion polls suggest that, in spite of recent events, the police remain well up the public's list of highly-regarded occupational and professional groups – far higher in the list, remarks Sir John with a smile, than politicians, lawyers and journalists who are often among the police's critics.

The police service, he says, is going through a period of condemnation at a time when it is "very likely better led, better managed, cleaner and of higher integrity than it has ever been." He makes this strongly positive declaration not only on the basis of his own 39 years service but as chairman of the Metropolitan Police History Society.

"There were superb officers in the past but the demands are far greater now. We live in a much more complex and demanding society in all sorts of ways and the vulnerability of the police has been exposed over the years. The police service I was introduced to in 1951 existed in a largely self-regulating society which obeyed certain norms and standards. Since then we have become a less stable society for a variety of reasons.

"The police service has always been good at dealing with major problems like murder. But the areas where we can appear vulnerable – opportunistic crime, street nuisance, the sort of things police officers in the numbers we have them cannot possibly control – that is where we have lost it to a certain extent, because society has changed."

This problem has been manifested by a steady increase of frequently unsolved car thefts, burglaries, vandalism and similar offences. Does Sir John have a solution? His reply is linked to the approach be believes should be taken to restore confidence after recent blows to morale.

Ways have to be found, he believes, for the police service to renegotiate its contract with the public. This should include a demonstation by senior officers that they are running economic, efficient organisations of high integrity and professionalism, taking the public's wishes into consideration. For the public, it requires a recognition that the police cannot single-handedly protect a society which has become more acquisitive and shown greater tendencies to violence.

The concept of policing by consent did not mean consenting to what the police did. It referred to the need for people to contribute to the stability of their own society.

Police forces could look after the things which required their expertise – international crime, organised crime, murder, terrorism. "But we have to recognise that many of the more routine matters cannot be dealt with by the police alone but must involve society using all the agencies at its disposal – the right education system, the right town planning, the right social censures on people who misbehave."

In such circumstances the British ideal of policing – low on numbers, low on power, high on accountability – could flourish. Otherwise the police service would gradually appear to lose its effectiveness, or pressures for a bigger, more powerful force would grow. The sinister thing about the latter was that police forces which were high on numbers and high on power tended to have less accountability.

Public opinion is not the only heavy outside pressure on Britain's chief constables at present: the Government is demanding improvements in efficiency. "We should be obliged to use measureable indicators wherever that is possible but it is not the entire story," says Sir John. "The efficiency of a police force does not always equal effectiveness. If a detective is going to be an effective officer in the global sense of the British police service he is going to spend some time in reassuring victims of crime. You cannot measure that but you need resources to do it, and we are trying to develop performance indicators which will include things that are qualitative."

The idea of creating an officer class of entry to the police has been revived by the possibility that defence cuts could soon put a growing number of military officers on the employment market. Currently all senior police officers, like Sir John, rise from the ranks. Would he be unhappy to see this change?

He points out that the service attracts a better share of graduates than the armed services, and that fast-track promotion arrangements exist. There would be no objection to people joining the police from careers in the Army or elsewhere, provided they recognised that even people in the fast lane needed to spend time learning their trade.

Another issue on the political agenda is whether Britain's police structure, which is broadly based on local government boundaries, would be more efficient if replaced by a national force.

Differences of opinion exist between chief constables, and the ACPO is, in Sir John's words, trying to get the best of both worlds by increasing co-operation between forces. This led to agreement last week to establish, subject to Home Office approval, a national investigation bureau with its own chief officer to co-ordinate the fight against organised crime.

Co-operation between police forces is becoming increasingly international as well as national. The ACPO is engaged in discussions with all EC police forces in readiness for 1992 and the police service is, suggests Sir John, more prepared for the single market than many other organisations.

European integration and greater police co-operation is likely to eventually bring another issue into focus – Britain's entire criminal justice system and how well it compares with EC alternatives. Police officers discovered to have falsified evidence properly stand condemned. But perhaps recent events also contain lessons about the quality of Britain's courts?

"I have a great belief in the jury system but in a way I think that is abused because of our system of getting at the truth in our courts. There is a naivety about policemen, I'm afraid, who honestly do believe that the events which take place in court are about getting at the truth.

"I am not sure that our system really supports that belief. It is much more like a contest played to certain rules and if the rules can be used to your advantage you win.

The system can, suggests Sir John, lead to a style of cross-examination which can reduce witnesses – police officers and others – to a point where they foolishly, not always wickedly, commit perjury by being forced by the adversarial court environment to make over-positive statements.

He says he has not made up his mind completely, because there are problems with the alternative inquisitorial, examining magistrate system which operates in some countries. He wonders, however, whether Britain should be considering moving towards it.

PERSONAL FILE

1931	Born in north-west London. Educated at Royal Grammar School High Wycombe and William Ellis School Highgate.
1951	Joined City of London police.
1966	Superintendent in Kent Constabulary.
1969	First UK police officer to attend Joint Services Staff College, Latimer.
1969	Assistant Chief Constable of Kent.
1973	Joined Metropolitan Police.
1980	In charge of operations at Iranian Embassy siege.
1987	Deputy Commissioner.
1989	President of the Association of Chief Police Officers of England, Wales and Northern Ireland.
1990	Knighted in June.

Why there is hope for Soviet economic reform

6699

Anatole Kaletsky on eastern Europe

Last week, President Mikhail Gorbachev completed the redrawing of the map of Europe, without a shot being fired. A week earlier, at the chaotic Communist Party Congress, the previously all-powerful apparatus seemed to surrender its domination of Soviet life with nothing more than a few verbal counter-attacks: totalitarian communism seemed to be ending not with a bang, but a septuagenarian whimper.

Mr Gorbachev, in other words, has done the impossible. Now comes the hard part.

From this week onwards, the Soviet Government no longer has any excuses for shrinking from the economic reform without which political perestroika will prove to be a bitter delusion. Eschewing further diplomatic distractions, Mr Gorbachev must now "make the economy his favourite child," in the words of Mr Leonid Shatalin, one of his key economic advisers.

Unless he does so, the chaos in the economy could sweep away all his political achievements. Yet there is widespread doubt that Mr Gorbachev will even try, still less achieve, a genuine economic reconstruction. The reasons for pessimism, from regional disintegration to bureaucratic obstinacy, need no repeating. The arguments for hope seem to be less well-known.

First, there is now a better chance than ever that serious reforms will be undertaken. Mr Gorbachev finally has the power and the democratic legitimacy to take radical economic actions. Legitimacy comes from the explicit mandate he received from last month's Supreme Soviet to start introducing market-oriented reforms by decree. The decrees were supposed to start pouring out of the Kremlin from July 1. Though only two have been published – facilitating the creation of co-operatives and joint stock companies – a more significant one, which may provide a broader and firmer framework for small businesses and other forms of private ownership, is said to be well on its way.

More important than his ability to create legislation, is Mr Gorbachev's success in gradually neutralising the party's reactionary elements. By orchestrating the election of a divided and undistinguished leadership at the Communist Congress, he has continued to marginalise the party and probably limited its ability to undercut his power.

Meanwhile, of course, the desperate need for action has become more obvious. Indeed, the recognition that change is now inevitable – "objectively", as the old-fashioned Marxist would say – is the main reason why so many members of the party and bureaucratic apparatus are jumping on the bandwagon of reform. In eastern Europe much of the old bureaucratic nomenklatura is being co-opted into the new managerial elite. This chameleonic behaviour is a source of chagrin to the populists in Poland, but it must provide a certain reassurance to agile members of the Soviet ruling class.

But even if reform is now quite likely, this tells us nothing about its results. Looking around eastern Europe, the pain of the transition from central planning to market economics is becoming more obvious daily. If Poland, Hungary, Czechoslovakia and even East Germany face collapsing living standards, industrial chaos and probable mass unemployment, does it not follow that the consequences in the more backward and centralised Soviet economy will be much worse?

On the contrary, the Soviet economy's very "backwardness" could prove a blessing. One reason was illustrated last week as Czechoslovakia, Hungary and Bulgaria reported big shortfalls in the Soviet Union's oil deliveries. These will result in large – and economically necessary – increases in energy prices throughout eastern Europe, and also in a drain on these countries' hard-currency reserves.

For the Soviet Union, on the other hand, the breakdown in the Comecon trading system should prove beneficial. According to an analysis by County NatWest Securities, the Soviet Union's trade surplus with Comecon countries would have been $16bn in 1989 if trade had been conducted at world market prices. Thus the dismantling of the Comecon system could finance a second safety net for the Soviet economy as big as that being planned by Germany and the EC.

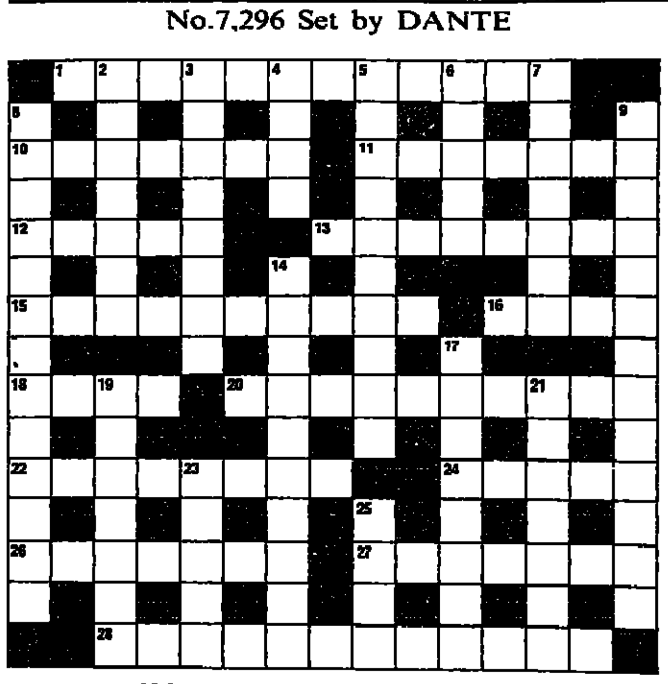
Of course, many of the Soviet Union's own managers are terrified of losing the more or less reliable suppliers of industrial products and inputs they depend on in eastern Europe. They see the dismantling of Comecon as an international version of the collapse of domestic supply chains which is now paralysing Soviet industry. Their fears, however, are largely a reflection of their ignorance of market mechanisms. Nobody in the west may want to buy Soviet industrial goods, but as buyers of ball-bearings, oil drilling bits or television tubes, Soviet managers will be welcomed from Houston and Milan to São Paolo and Seoul – provided that they are backed by hard currency earned from energy sales in hard currencies.

In fact, the Soviet Union is better placed for economic reform than any of the more "advanced" former socialist countries. As an importer of industrial products but an exporter of unprocessed raw materials, the Soviet Union will initially enjoy all of the benefits of international competition, while bearing none of the adjustment costs. In the next year or two, therefore, a factory worker's job may well be safer in Kharkov or Leningrad than in Brno, Lodz or even Leipzig.

JOTTER PAD

CROSSWORD

No.7,296 Set by DANTE



ACROSS

1 One will get nothing but pleasure from this task (6,2,4)
10 Capricious boy about to betray one's trust (7)
11 Takes parents out (7)
12 Roots develop into a trunk (5)
13 Charm is a curious personal quality (8)
15 Note odd word in novel Dickens didn't finish (5,5)
16 An image I'd behold in retrospect (4)
18 An old joke (4)
20 An air of 14 down? (4,6)
22 Two birds seen at 14 down (8)
24 Image to carry on the first of March (5)
26 Small type of green (7)
27 There's no place for him (4,3)
28 Useless demonstration of hunger-marchers? (5,7)

DOWN

2 In war Eric is involved, flying aircraft (7)
3 Retiring – or extravert (8)
4 Run of the mill (4)
5 Its recipient won't be deeply hurt (5,5)
6 Poor shot at route planning (5)
7 Slipped away, unusually pleased (7)
8 Hide coat from destructive insect (7-6)
9 Setting up in business (13)
14 The crack of dawn? (5,2,3)
17 A question of sex appeal? (4,2,2)
19 Hide away or gradually let out (7)
21 Sends back the proceeds (7)
23 Murphy's pile? (5)
25 Place where cubs may be left warm and dry (6)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday August 4.